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 Hi Ashley. Hey Jordan. We are here for episode 17 of the trade secret law evolution Podcast. Welcome everybody. The cases we're going to discuss this week, address trade secret identification in the injunction context, the concept of inevitable disclosure, which we've discussed and preemption under the California uniform trade secrets act, which we've also recently discussed. So the first case is a case out of the district of Minnesota in January, 2020, and employer moved to enjoin a former employee from working at a new employer because otherwise the defendant would allegedly inevitably disclose the plaintiff's trade secrets notes that this would not work in California or other states that don't enforce non-competes or adopt the inevitable disclosure doctrine, which basically says that, uh, employment with a competitor inevitably leads to trade secret misappropriation. That is if an employee has trade secrets from employer number one and moves over to the competitor employer, number one is saying, well, that's going to lead to inevitable disclosure of the trade secrets because she or he knows them and because they're competitors, she, or he will disclose them. Some states recognize that doctrine many do not include in California. So back to this Minnesota case, the defendant was not alleged to have taken any physical information from the plaintiff, just alleged to have remembered some of the trade secrets. So the issues were whether the plaintiff sufficiently identified the trade secrets and whether the inevitable disclosure doctrine supported misappropriation.

New Speaker:

Yeah. And so here, the plaintiff brought the claims both under the Minnesota uniform trade secret act and the defend trade secret act that elements of which were actually identical. And in looking at this case, the court, as often as issue in these kinds of cases, noted that to succeed on a trade secret misappropriation claim. The plaintiff actually has to define its alleged trade secret with sufficient specificity and here plants, definitions were all over the place. They were vague and they kept changing importantly. So first in the complaint, the plaintiff defined the trade secret as quote details related to the necessary steps to produce its courts surface products. And then in its briefs sent to the court, the plaintiff defined the trade secret as quote, the secret ingredients used in Recipes, certain equipment and supplies and the precise processes by which the ingredients are mixed, cured, finished, and delivered to customers and quote, it also defined them in those briefs as formulas, recipes, techniques, methods, and processes, then at, or argument, a third definition came up where plaintiff asserted for the first time that its trade secret included a particular recipe that is easily memorized.

Jordan Grotzinger:

So the definition was a moving target and it was vague. And the court said that this was not enough. Um, and it also said the trade secret identification was particularly important in this case where the defendant was not alleged to have taken any physical information, you know, frequently in these cases, you have a defendant, uh, secretly downloading files before she, or he leaves, uh, their employment or, or taking, uh, physical information. That was not the case here. He was just alleged to have remembered stuff. Uh, also the defendant submitted a declaration that he didn't remember the trade secrets and would not disclose them to his new employer in any event. So the court could not determine that any relevant trade secrets would be misappropriated.

Ashley Farrell Pickett:

Yeah. And as to the inevitable disclosure, the court noted that courts in Minnesota and an eighth circuit have neither accepted nor rejected that doctrine, but even without deciding whether that doctrine should in fact be recognized in this case, it said that it wouldn't apply in any event here. Um, the court went on to note that the burden to show that a defendant will inevitably disclose its trade secret is even higher than ordinarily required on a preliminary injunction. So plaintiff would have to show a high degree of probability of inevitable disclosure here. And again, mere knowledge of the trade secret is not enough.

Jordan Grotzinger:

And it makes sense that the burden would be higher in a case like that, because if it wasn't higher than the logical conclusion would be any time an employer left a company, uh, and had access to trade secrets in that company, they would be deemed to be a miss appropriator. Every time they moved to a new company in the same business, that obviously would not be workable. So here, the plaintiff argued that the defendant had a history of disclosing confidential information. The competitor recruited him and the defendant lied about accepting his new position. The court weighed all of this evidence and found it was not enough to meet that high probability standard. And it said, quote, any trade secret that a defendant possesses in his head, he cannot help, but take with him close quote to the point that I just made and quote the court said, courts do not grant injunctions when the only trade secrets are in the employee's head. And the company has not demonstrated a high of inevitable disclosure close quote, thus, in this case, the plaintiff didn't demonstrate a likelihood of success for purposes of getting an injunction. Yeah.

Ashley Farrell Pickett:

Um, so moving on to the second case, this is a case out of the Northern district of California, uh, the plaintiffs here were tech companies and the defendant was the former CEO of arc. Yeah. Was the former CEO of one of the tech companies who then B was also a principal of another company that the plaintiffs had later hired. And the plaintiff's alleged that defendant secretly compiled confidential information during their relationship to compete against the plaintiffs. And they specifically alleged that after they terminated defendant's access to their servers, defendant somehow talked an email hosting company into resetting his password with one of the plaintiff's companies. So he could access plaintiff's account and steal their customer and employee lists and training programs. He then allegedly use that information to compete with the plaintiffs. And so plaintiff sued for violation of the California uniform trade secret act in related claims, including breach of fiduciary duty, conversion, fraud, and unfair competition. And the defendant here brought a motion to dismiss. I do frequently.

Jordan Grotzinger:

We see that in misappropriation cases, rarely do you see a complaint with just that claim? Um, or just a couple of claims, uh, most frequently you'll see a whole list of related claims that are somehow tied to the misappropriation claim. Like the ones that were mentioned here, if I do share duty conversion fraud, et cetera. So as a threshold matter, the court in this case, laid out the rules on California uniform trade secret act preemption, which bars legal theories that are based on the same nucleus of facts as a trade secret claim, the only exceptions being contractual and criminal claims and the court noted quote, a majority of courts have concluded that the California uniform trade secrets act supersedes claims arising from the alleged misappropriation of confidential information. Even if that information does not satisfy the definition of trade secrets under the act, that is because if confidential information is not a trade secret, it's not protectable under the law, absent some independent property interest.

Ashley Farrell Pickett:

Exactly. And as Jordan touched on at the beginning of this episode, we've spoken about preemption on other episodes. And so a lot of you likely know that, you know, the end result is at the, is here that the breach of fiduciary duty claim, the conversion claim, the interference with contract and prospective economic relationship claims, which all are based on accessing confidential information without were preempted by the California uniform trade secret act. And therefore the court dismiss those claims.

Jordan Grotzinger:

And interestingly as, so it dismissed those related claims that were based on the uniform trade secrets act, interestingly, as to the claim under the uniform trade secrets act, the court ruled that the plaintiffs had not described the trade secrets with sufficient particularity because as to the customer lists and other material allegedly stolen, the plaintiff's only alleged or concluded that they were compiled quote in such a way that they derived independent economic value from being not generally known to the public close quote. So the complaint essentially parroted the elements of, of that trade secret requirement without alleging supporting facts like ones that we've described a lot in this podcast that is not enough, the court said, uh, and as we've discussed, you have to allege and later prove facts supporting that the trade secrets were valuable because they are secret and are actually secret. So the, the uniform trade secrets claim was dismissed as well. Okay,

Ashley Farrell Pickett:

Exactly. So some of the takeaways, um, from these two cases are first, the definition of a trade secret in an injunction proceeding should be specific and consistent between the complaint, the briefs and the oral argument. Things like quote, detailed ingredients and processes are far too vague, especially if you're going to be talking about information in someone's head, as opposed to something on a piece of paper or a file that the defendant allegedly stole. So bottom line a court needs to know what it is enjoining

Jordan Grotzinger:

As to the inevitable disclosure doctrine. If it applies in your state or in your case, the plaintiff must show a high probability of inevitable disclosure. It's not enough that the plaintiff just knows certain trade secrets, which she often can help strong circumstantial evidence or direct evidence is required. And that's because as we discussed absent a high burden, you would effectively be preventing employees who had access to trade secrets and company number one from moving to company, number two, a competitor, just because she or he might've known the trade secrets that would impede fair competition and employment. And the law doesn't recognize that hence the high a burden for inevitable disclosure, if it applies

Ashley Farrell Pickett:

Exactly. And as to the California uniform trade secret act that preempt other non-contractual civil claims that arise from the same nucleus of facts as a trade secret claim. So even if the confidential information doesn't rise to the level of protectable trade secret, it still would preempt it.

Jordan Grotzinger:

And lastly, and at least according to that Northern district of California case that we discussed, which was the second case, this preemption under the California uniform trade secrets act can exist. Even if

the trade secret claim itself is insufficient. Like in that case where the trade secret claim was dismissed along with the related claims. So theoretically if claims like breach of fiduciary duty conversion interference with economic relationships and related claims are based on stolen confidential information, they can be preempted even if there is no viable trade secret claim, because that's what happened in that case. Um, and, and it'll be interesting to see if litigants use this as a defense where the plaintiff hasn't asserted a trade secret claim. So for example, what if a plaintiff sues for breach of fiduciary duty conversion, uh, interference with economic relationships and all of those claims are based on alleged stolen, confidential information, but there's no trade secret claim. Are you going to make the argument that, Hey, this is all preempted by the California uniform trade secrets act, theoretically, according to this case, you could, but the risk and the issue you're going to have to weigh is are you just inviting the plaintiff to assert a claim under the California uniform trade secrets act? Um, and again, uh, that will depend on whether the plaintiff can, uh, establish, um, that it's confidential information rose to the level of being a trade secret. It's an interesting, fine line. And it'll be interesting to see if people use that. Uh, even when a trade secret claim is asserted, you're going to have to be pretty confident to raise that argument, uh, that the other side cannot, uh, establish that confidential information as a protectable trade secret. Otherwise, you're not going to be comfortable, uh, raising that preemption defense if the trade secret claims

Jordan Grotzinger:

Not independently asserted. That's it. Thank you everybody until next time. Thank you. 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,

Ashley Farrell Pickett:

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