

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.

Ashley Farrell Pickett:

Good morning, Ashley. Good morning Jordan and how are you doing? I'm good. How are you? Good. So we're going to jump into another episode. This one only discusses one case, and I want to remind our listeners why some episodes are considerably shorter or longer than others. And that is because we really do try to filter out what you've heard a hundred times or what is obvious. And when we look at every case from around the country, uh, in the two weeks, between every episode, we really do look for interesting wrinkles or issues that are somewhat novel or useful in your prosecution or defense of these cases instead of just the vanilla elements.

Jordan Grotzinger:

And, you know, some, some cases are just so routine that we can talk about it. You won't really learn anything. So they're just for whatever reason, there weren't that many, there weren't that many trade secret cases in the last couple of weeks. And of those, we decided that, uh, that this one was the one worth talking about. So we just think it's better to give you, you know, six minutes of content that's useful than 20. That is not just the good stuff, just the good stuff we hope you agree. So with that, um, the case we're going to address deals with trade secret identification, reasonable efforts to maintain secrecy and improper means for purposes of misappropriation. Uh, this case came out of the Southern district of New York, uh, this month in February. And the plaintiff was a former advisor to banks, which were the defendants in the case, he advised the banks on proposed deals and was paid by the banks, but he didn't have a signed contract, which becomes important.

Jordan Grotzinger:

One of the banks approached him about valuing a potential investment in a wind farm. And as a result, allegedly, the plaintiff developed a proprietary model to value the banks energy sector investments. And he described it as quote, uh, both a direct valuation tool and as a way to check spreadsheets and proposals sent to the defendant bank by investment sponsors and arrangers close quote, and the plaintiff allegedly used that tool to evaluate several energy investments.

Ashley Farrell Pickett:

Yeah And so plenty of which sometimes share the Excel spreadsheets that he created, which incorporated his model with select individuals at the bank. He claimed that he was always careful to insist that the bank never share That model. And what ultimately happened is the defendant bank phased out his work in favor of using another bank, um, who was also a named defendant and plaintiff thereafter alleged that the bank that he worked for and created this proprietary model for shared over 100 spreadsheets that incorporated the model with the new bank. So he also alleged that the bank he worked for shared a second proprietary model that he had created, which was designed to monitor low income housing tax credit transactions specifically with a third party when plaintiff was terminated eventually from the bank, the relationship ceased, he sued the bank for trade secret misappropriation and related claims, and the defendant bank moved to dismiss.

Jordan Grotzinger:

So this was a New York case under New York law. And, uh, as we've said, New York is one of the two states, the other being North Carolina, which does not adopt the uniform trade secrets act, but the requirements are similar. So under New York law to plead a trade secret misappropriation claim, the plaintiff must show one that he possessed a trade secret and two that the defendant used it in breach of an agreement, a confidential relationship or duty, or as the result, uh, of discovery by improper means. And a trade secret is broadly defined similar to the way it's defined in the uniform trade secrets act.

Ashley Farrell Pickett:

Yeah. And so, as we've discussed in earlier episodes of this podcast, um, New York uses several factors that guidance analysis and trade secret cases. One is the extent to which the information is known outside of the business. Two is the extent to which the information is known by employees and others involved in the business. Three is extent of measures taken by the business to guard the secrecy of the information. Four is the value of the information to the business and its competitors. Five is the amount of effort or money expended by the business in developing the information and the sixth and final factor is the ease or difficulty with which the information could be properly acquired or duplicated by others

Jordan Grotzinger:

As to the models or tools that the plaintiff developed and called trade secrets. He described the first model as quote, a set of complex financial formulas implemented in an Excel spreadsheet that constitute a unique and proprietary method of tax equity, investment analysis, close quote, the defendants argued. This was not specific enough. And as we know, a trade secret claimants are required to quote, plead their trade secrets with sufficient specificity to inform the defendants of what they are alleged to have misappropriated close quote, but the plaintiff need not divulge every detail of a trade secret, obviously, especially a pleadings, because then it would no longer be secret.

Ashley Farrell Pickett:

Yeah. And so what the plaintiff did do here was he explained what the model did, which was efficient. So for example, he said, quote, the model would calculate how much the bank could stand to invest in light of the proposed projects value such that the bank's initial investment could be repaid and achieve the desired return and quote, also he described what the program or model did as quote that I would calculate the proposed projects, tax credits, taxable income and cashflow under various wind scenarios in quote, in addition to accounting for us tax benefits and quote a potential investments, hypothetical liquidation at book value, which I know I've thrown just a lot of verbiage at you, but essentially he was able to explain exactly how the model took the information that was input into it and derive something that was of value for the bank.

Jordan Grotzinger:

So the court said this was enough to quote, discern the general contours of the alleged trade secret, close quote, and put the defendants on notice of what the plaintiff believed was misappropriated. However, the court said the plaintiff did not allege sufficient measures to maintain secrecy, which is another element, uh, or requirement for trade secret. Most misappropriation, both under New York law and the uniform act. The court noted that this is only one factor in New York, but it's the most important one. And here, although the plaintiff initialed most of the spreadsheets and allegedly insisted that the bank never share them, he did share them with the bank. He shared them with the bank. Um, and the court said, quote, although sending the spreadsheets to the bank does not in itself destroy the secrecy

of the alleged trade secret plaintiff's failure to allege quote, substantial measures, close quote, if any measures at all taken to protect the spreadsheet sent to the bank does preclude this claims success, notably the court said plaintiff has not alleged the existence of any formal agreement between him and the bank regarding the information's confidentiality. And while a formal agreement isn't necessary to establish secrecy. The plaintiff doesn't even allege that he ever sought to establish any particular limitations on who within or outside of the bank could see the spreadsheets.

Ashley Farrell Pickett:

Yeah. So in other words, he just didn't do enough. And these deficiencies bled into the court's conclusion that the defendants didn't misappropriate because they didn't breach any agreement or acquire the trade secret by improper means it was sent directly to them. And of course, both of those are required, or one of those at least as required for misappropriation here and said, the parties had a conventional business relationship and plaintiff shared the spreadsheets with the bank. That's not misappropriation Jordan. You might remember. There was, I believe it was an episode before last, there was a Southern district California case that also dealt with Excel models and so forth. And that case was on via trade secret. And it was found that the plant there had properly or sufficiently, I should say, um, protected that trade secret there, you know, distinct from here, the trade secret information within the models was maintained within the company. And the defendant at issue had downloaded and, you know, email that information to himself when he was leaving. So there, there were passwords in place. There were, you know, even though there wasn't a formal agreement, there were enough measures that distinguish it enough from this case,

Jordan Grotzinger:

You got to have something and the more, the better and onto the takeaways for trade secret identification, which can sometimes be challenging, that can be bolstered as it was in this case, by explaining what the trade secret does, like the model in that case, that calculated, uh, how much the bank could invest, usually trade secret identification focuses on just that, you know, there, you see tons of cases about customer lists and, um, formulas, uh, and, and pricing. Those are probably the most common things that, uh, litigants try to identify as trade secrets. And then often there is a fight over whether that's specific enough, well to bolster the identification. It can also help as it did here to explain to the court what this thing does, because that adds a little more specificity and can really help with this crucial requirement, uh, at the pleading stage.

Ashley Farrell Pickett:

Exactly. And you also need more than initials on the document or program and just telling people verbally, allegedly not to share the trade secret, you need a contract or encryption or password protection or some other kind of concrete measure that you can cite to, to show that you did in fact, take reasonable efforts to maintain that secrecy.

Jordan Grotzinger:

And some case law even suggests that you should tell the receiving party that the information you were disclosing to them is a trade secret. Um, you, there are frequently confidentiality agreements that have broad language. There wasn't one in this case, uh, but it can help with, to establish reasonable efforts or reasonable measures. If you say, you're going to have access to XYZ, uh, and these are trade secrets. This is information we consider to be trade secrets. And therefore, you know, you're not to disclose it outside the company, it's password protected, et cetera. So actually specifically saying something as a

trade secret can also bolster the reasonable efforts, uh, element, and finally to show, which generally requires disclosure or acquisition by improper means you need to show that the defendant breached some agreement or policy or otherwise acted in bad faith or wrongfully. And so it's important to have those measures or those kinds of agreements or policies in place.

Jordan Grotzinger:

They not only helped to establish efforts to maintain secrecy, but sometimes can be the basis of misappropriation, uh, absent, you know, just pure theft, like corporate espionage. Uh, it's, it's generally not enough to say that the bad guy has the trade secret. He or she had to have done something wrong or technically improper to get it. And how do you plead that? How do you establish that? Well, if you've got an agreement in place that the defendant breached in taking the trade secret, that counts as an improper means. So, uh, that's an example of how to requirements of trade secret misappropriation, reasonable efforts to maintain secrecy and acquisition or disclosure by improper means are tied together. You often have to have the former in order to establish the latter and that's important. And that is that, uh, until next time. Thanks everybody have a great week. Bye. 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@gratsingerjatgtlaw.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 3:

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