

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,

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Everybody. And welcome to episode 28. In this episode, we're going to discuss cases that involve agency and the principle of indirect misappropriation and the concept of intrinsic knowledge as a trade secret. So jumping right in the first case was from last month, August, 2020 out of the Northern district of California. This case dealt with agency and indirect misappropriation, which we've addressed before on this podcast. In this case, the plaintiffs were in the business of aluminum alloy products, and it gets a little confusing because there are a number of different individual and corporate defendants. So I'm going to try to simplify this as much as possible. So you can get to the essence of, of the rule that we're discussing. So individual defendant, one I'll call him was a vice-president of one of the plaintiffs in charge of negotiating agreements and business development. The defendant negotiated an agreement with corporate defendant.

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Number one, to be the exclusive supplier of the plaintiff while working for the plaintiff individual defendant, number one formed corporate defendant to, to which he started siphoning business. Typical scenario. In these cases, he then left the plaintiffs. There was more than one, one plaintiff, and working with other individual defendants who worked for corporate defendant. Number one, began working for corporate defendant, number one, and formed corporate defendant three as corporate defendant one's us sales arm got that so far. Actually it doesn't for, for purposes of what we're going to discuss agency and indirect misappropriation. You don't quite have to follow that, but that's really the simplest way to put it. So moving on the plaintiff sued for violation of the federal defend trade secrets act and the California uniform trade secrets act, and the defendant's move to dismiss the claims against all defendants, but individual defendant.

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One, the plaintiffs argued that the corporate defendants and the remaining individual defendants are vicariously liable for misappropriation. The court noted that an employer may be vicariously liable for an employee's misappropriation of trade secrets and quote, whether an employer is vicariously liable, turns on whether the trade secret misappropriation was committed within the scope of employment close quote. That's a general rule of agency in the law, and it's no different in trade secret cases and quote here. Misappropriation is within the scope of employment when it is performed, at least in part to benefit the employer, even though the employer may forbidden it close quote, the defendant's argument essentially was that the plaintiff's pleading of vicarious liability was too boiler plate for the non-lawyers out there. That means the fine print on products that not many people read, uh, and, and is considered legally. So the defendants were arguing that, uh, the pleading of vicarious liability or of agency liability was to boiler plate, but here the court said the amended complaint, quote, plead specific facts, that individual defendant number one, misappropriated trade secrets for the benefit of closed corporate defendants.

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Those facts included that individual defendant number one, formed corporate defendant two and use proprietary and proprietary information to place orders under corporate defendant two's name. He then became corporate defendant once CEO and underbid, the plaintiff's customers using the plaintiff's confidential information. And he formed corporate defendant three to steal business from the plaintiff's using its confidential information. That was enough to plead that the misappropriation was quote performed at least in part to benefit the corporate defendants. So you can see the principles pretty simple, and the confusing roadmap of parties with all the individual defendants 1, 2, 3 corporate defendant. 1, 2, 3 really doesn't matter. The test is if the misappropriation was performed by the employee, at least in part to benefit the employer, there can be vicarious liability. On the other hand, the court ruled that the plaintiffs did not sufficiently plead indirect misappropriation against the remaining individual defendants.

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And as we've discussed, indirect misappropriation requires factual substantiation of defendant's knowledge of direct misappropriation, close quote, and a plaintiff must quote, plead distinct facts as to each defendant that would give rise to trade secret misappropriation close quote. In other words, the defendants can't be lumped together here. The court said the plaintiff's allegations were too conclusory and threadbare essentially, uh, that these defendants worked for corporate defendants or had access to trade secrets. That doesn't mean that those individual defendants had reason to believe that corporate defendant want, or that individual defendant one would misappropriate those trade secrets. Thus, those individual defendants were dismissed. They were not direct misappropriators, but were essentially, uh, accused of, I don't want to use the word conspiring because that's a separate legal concept, but of, uh, assisting the misappropriation. But the conclusory allegations that they just worked for the corporate defendants and had access to the trade secrets, isn't enough for liability under the indirect misappropriation doctrine.

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The second case involves, uh, treating intrinsic knowledge as a trade secret, which is an important concept to be aware of in trade secret cases because frequently, uh, former employees or employers or competitors or plaintiffs in trade secret cases are particularly concerned about a departing employees or defendants intrinsic knowledge that she or he might have learned at the plaintiff company. So this case was out of the district of Nevada from this month, September, 2020, uh, the companies were in the casino business and the plaintiff lost several employees to a competing casino in Atlantic city. The individual defendant worked as the plaintiff's vice president of relationship marketing in charge of maintaining relationships with the plaintiff's high rollers, so to speak. So he quote developed close personal relationships with plaintiff's highest level guests and learn their preferences regarding credit, large loss discounts, gaming rule changes, hospitality, and other considerations that provided plaintiff a competitive advantage in having these players consistently returned to its casino close quote, and he communicated with them using his plaintiff issued cell phone, which he didn't return when you left for the corporate defendant competitor.

Jordan Grotzinger:

The plaintiff alleges that the defendant does the same thing at the corporate defendant, but uses a sham title, senior vice president of hotel operations, sort of this generic title to hide the overlap of his role as between his former employer and the current one, the, the corporate defendant, the plaintiff alleges that the defendants misappropriated its trade secrets and moved for a TRO temporary

restraining order and the plaintiff alleged misappropriation under the defend trade secrets act and the New Jersey trade secrets act. The court said, however, quote, however, given the broad definition of trade secret, the court does not find plaintiff's failure to identify its trade secrets with particularity fatal to its claim, the complaint and motion for TRO alleged that plaintiffs misappropriated trade secrets, encompass plaintiff's quote marketing strategy, close quote, which at a minimum includes plaintiff's customer lists of its highest spending players and those players gaming credit and hospitality preferences, close quote, and the court said, quote, those players identities and their preferences are subject to the confidentiality provisions in the defendant's employment agreement, which indicates plaintiff's reasonable efforts to maintain the information's secrecy close quote.

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And as, as you know, if you listen to this podcast, the, uh, requirement of reasonable efforts to maintain secrecy is the third element of a trade secret. It's a trade secret is basically information or material that is number one, secret number two, valuable to its owner and its competitors because it is secret otherwise known as independent economic value and subject to reasonable efforts to maintain secrecy. So the court turned to the analysis of misappropriation itself, holding that a showing had been made that trade secrets may be, it may be at issue. The plaintiff alleges that the defendants acquired the trade secrets in two ways. Number one, the intrinsic knowledge of this defendant and to the information contained in his plaintiff issued cell phone. The plaintiff also alleges that it protected this intrinsic knowledge with its contract, with the defendant, which included the confidentiality non-solicitation non-solicitation and non-compete provisions and quote.

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There is no plausible way a competitor such as the corporate defendant could readily ascertain the plaintiff's particularly particular marketing strategy in regard to its highest level patrons without the individual defendant disclosing that information to close quote, the corporate defendant. That's what the plaintiff argued. And it also asserted that the individual defendant is misappropriating its trade secrets by working in positions in the same function as he held with the plaintiff. Those allegations were enough to support a claim for injunctive relief against individual defendant. The court said, quote, the defendant's knowledge of plaintiff's trade secrets was allegedly compounded by him having retained his work phone, which contained the contact information of the plaintiff's top customers, as well as text message conversations describing their preferences, his intrinsic knowledge of plaintiff's guests. And the information on the plaintiff issued phone were allegedly subject to reasonable efforts to maintain their secrecy.

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Because one, the defendant was subject to a confidentiality agreement that encompassed information learned through customer relationships. And two, he was subject to a non-competition agreement that did not allow him to work in a substantially similar capacity with a competitor for 12 months. The plaintiff alleges that the defendant misappropriated plaintiff's trade secrets by one using his knowledge of customer preferences in service of the corporate defendant, by attempting to recruit plaintiff's customers, to play at the new casino and to doing so on his improperly retained work phone close quote, and the court said, quote, the conduct that conduct violates the defend trade secrets act because it is the non-consensual use of a trade secret in breach of a duty to maintain the information secrecy close quote. And that duty of course came from those contracts, which prohibited him from using

confidential information. So that was the court's ruling on the injunction as to the individual defendant that moved over to the new casino as to the corporate defendant.

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However, quote plaintiff has not produced evidence that the corporate defendant knew about the conduct or otherwise induced the customer contacts and the evidence before the court does not show a likelihood of success against the corporate defendant. The corporate defendant represents that it informed the individual defendant who came over that it expected him to abide by any restrictive covenants. He entered with the plaintiff close quote. So that brings us to our takeaways and they are these okay. Misappropriation is within the scope of employment, meaning the employer can be liable when that misappropriation is performed, at least in part to benefit the employer, even though the employer may forbidden, uh, that may sound unfair, but it is the law and agency law is, uh, broad, uh, in, in generally speaking and here in the trade secret context take away to indirect misappropriation quote requires factual substantiation of defendant's knowledge of direct misappropriation, close quote, and the plaintiff must quote, plead distinct facts as to each defendant that would give rise to trade secret misappropriation close quote.

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In other words, the defendants can't be lumped take away. Three is that intrinsic knowledge and information learned through customer relationships can constitute trade secrets if subject to reasonable efforts to maintain secrecy. And of course, uh, meet the other elements of a trade secret. And also on that note, it's worth specifying in confidentiality agreements. If you're an employer that such knowledge and information is considered confidential and trade secret in order to bolster this element. So if you are, if you are a company with an employee who might leave and go to a competitor, and that employee has access to confidential or trade secret information, it's worth specifying in that, in your confidentiality agreement with the employer, that knowledge and information learned through customer relationships can constitute trade secrets that are encompassed by that agreement. It's just another thing you can argue if you're an employer faced with this situation.

Jordan Grotzinger:

And the last takeaway is even, yeah, if a former employee is found to have misappropriated, that does not mean that the new employer is liable, new employers should be sure to make a record that it told new employees not to misappropriate former employees trade secrets. So in that casino case, for example, the corporate defendant, the new casino to which the individual defendant moved with his secret intrinsic knowledge was found not to be subject to an injunction. In other words, the court found that the plaintiff did not make a sufficient showing that the corporate defendant likely misappropriate because it showed that it told the new employee, uh, that it should not misappropriate your old employers trade secrets. And that was the new company's expectation. So companies, uh, new companies, onboarding employees in such circumstances should make a record of that expectation, which can be used to defend against claims of misappropriation. Okay. That's it good to talk to you guys and until next time, bye everybody.

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

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Speaker 3:

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