Speaker 1: 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. You want to hear something funny? I'm recording this episode from the passenger [00:00:30] seat of my car in my garage,

Speaker 2: Because it's the quietest place in the house. My son's back from virtual college and there's just too much going on. And, uh, I decided that this is, uh, the most effective studio at the moment. So in 2020 you adapt. Uh, and here we go. It's been the longest amount of time between episodes because I was getting ready for a trial and got to pay the bills as they say, [00:01:00] but I've got some time now. So here we go. We're going to discuss cases that address sufficiently identifying trade secrets to avoid summary judgment. Obviously a big deal, uh, as we've talked about a lot trade secret identification is probably the number one issue. In these cases. There's always a fight about it. And frequently the defendant will make a motion for summary judgment or otherwise challenge the identification of a trade secret. And the [00:01:30] ninth circuit pretty important court of appeals in my neck of the woods has addressed this issue.

Speaker 2: Recently, we'll also address case law, addressing customer data as a trade secret and the requirement of reasonable efforts to maintain secrecy. So turning to the ninth circuit case, which came down in October, 2020 and address the issue of how to sufficiently identified trade secrets to avoid a summary judgment [00:02:00] ruling, the court framed the case as follows quote. This appeal involves the requisite particularity with which trade secret misappropriation plaintiffs must define their trade secrets to defeat a motion for summary judgment, deciding trade secret claims means navigating the line between the protection of unique, innovative technologies and vigorous competition close quote. That really is what this podcast is all about. So I'm in [00:02:30] let's let's get after this one, the plaintiff seeks to protect its interest in this case, in quote, the logic and architecture of its securities tracking database close quote, while the defendant maintains that its newer system is quote an independent improvement to the securities tracking marketplace close quote, but before reaching the question of whether the defendant misappropriated the plaintiff's trade, the court [00:03:00] said, quote, we must identify the alleged trade secrets and decide if they are protectable close quote.

Speaker 2: Okay. So in this case, the plaintiff developed the system. I'm just going to generically call it the system because, uh, as you know, we have a policy in this podcast of not naming the parties or their products, pretty easy to find out if, if you want to, uh, but for business and conflict purposes, we don't mention those in the podcast. [00:03:30] So this system that was developed by the plaintiff, was it comprehensive electronic system for managing stock brokerage firm, accounting, securities clearance, and securities settlement services. The defendant licensed the system from the plaintiff in a software license agreement, and later terminated the agreement. And shortly thereafter, the defendant deployed its own new electronic trading system. And the plaintiff systems [00:04:00] architect notice similarities between the defendant's new system and the

system he had built for the plaintiff, including a table used in the defendant system with the same quote, unique names, close quote in a column as used in the plaintiff's system.

Speaker 2: So these software products looked similar, the plaintiff noticed this and contacted the defendant and they negotiated for months, which culminated in the defendant, allowing [00:04:30] the plaintiff's forensic expert to examine the defendant software and issue a report. And the report stated quote, in fact, so striking where the similarities that it appeared to us that the defendant system had been constructed by a programmer who had one eye on the plaintiff's system, as it was running and the other eye on the system, he was building like a painter looking back and forth at a live model while depicting [00:05:00] her on the canvas close quote. So, uh, of course the plaintiffs sued for violation of the defend trade secrets act and the California uniform trade secrets act. The district court, the trial judge granted the defendant's motion for summary judgment held that the plaintiff failed to identify sufficiently, which elements of the plaintiff's system were allegedly trade secrets, close quote, [00:05:30] the ninth circuit began its analysis by stating quote, we start from the important premise that the definition of what may be considered a trade secret is broad under the defend trade secrets act, a trade secret is defined as all forms and types of financial business, scientific technical economic, or engineering information, including patterns, plans, compilations, program devices, formulas designs, prototypes methods, techniques, [00:06:00] processes, procedures, programs, or codes, whether tangible or intangible and whether, or how stored compiled or memorialized physically electronically graphically photographically or in writing the information must derive independent economic value, actual or potential from not being generally known to and not being readily ascertainable through proper means by another person who can obtain economic [00:06:30] value from the disclosure or use of the information.

Speaker 2: Therefore, the definition of trade secret consists of three elements. One information to that is valuable because it is unknown to others and three that the owner has attempted to keep secret. Uh, is that enough of a mouthful for you as we've discussed the shorter plainer English version is that a trade secret is something [00:07:00] that is secret valuable to the owner and its competitors because it's secrets and, uh, subject to reasonable efforts to maintain the secrecy that really captures that much longer definition. And as we also know, quote, the plaintiffs should describe the subject matter of the trade secret with sufficient particularity to separate it from matters of general knowledge in the trade or of special knowledge of those persons skilled in the trade close [00:07:30] quote, the plaintiffs must clearly refer to tangible trade secret material instead of referring to a system which potentially qualifies for trade secret protection.

Speaker 2: And the plaintiffs cannot simply rely on catch all phrases or identify categories of trade secrets they intend to pursue at trial. And of course that the identification requirement becomes more stringent. The closer [00:08:00] you get to trial and actually have to prove your allegations. The court went on quote, identifying trade secrets with sufficient. Particularity is important because defendants need concrete identification to prepare a rebuttal courts. And juries also require precision because especially where a trade secrets claim involves a sophisticated and highly complex system, the district court or trier of fact will not have the requisite expertise [00:08:30] to define what the

plaintiff leaves abstract close quote. And the ninth circuit described how the plaintiff had identified its trade secrets at this stage, which was the summary judgment stage quote at the highest level of generality. Plaintiff described its trade secret as quote, the system's unique design and concepts and the unique software formulas processes, programs, [00:09:00] tools, techniques, tables, fields, functionality, and logic by which its components interrelate and process data close quote.

Speaker 2: And in response to the defendant's motion for summary judgment, the plaintiff produced two declarations where the system architect expanded the person who built the software expanded on the initial definition and described specific features of the system, his trade secrets [00:09:30] and the specific tables table columns, account identifiers codes and methodologies. The plaintiff claimed as trade secrets. The defendant argued. It was unclear. What methodology means now was that enough to get to a jury. And, and that for the non lawyers listening is what summary judgment or no summary judgment is all about. Do you have enough evidence to raise [00:10:00] an issue of fact to get to the jury? If you don't, the court will grant summary judgment, it'll say based on the facts, I can just apply the law. And, uh, the defendant is entitled to judgment as a matter of law, but if the plaintiff raises enough issues of fact, in other words, if enough material facts are disputed that it's not clear which way the case goes under the law summary judgment should be denied and you get to [00:10:30] a jury and that's what a summary judgment motions all about.

Speaker 2: So the court held that, that definition together with the declarations, expanding on the definition of trade secrets was enough to reach a jury and the court should not have granted summary judgment. The court held quote, we hold that there is a genuine issue of material fact as to whether the plaintiff identified its trade secrets with sufficient particularity [00:11:00] our reasonable jury could conclude that the uniquely designed tables, columns, account number structures, methods of populating table data and combination or interrelation thereof are protectable trade secrets. The plaintiff here identified aspects of its database, logic and architecture with enough specificity to create a triable issue of fact, rather than using catchall phrases [00:11:30] or merely identifying categories of information. The system architect declaration filed under seal to protect the protect proprietary information specified the program, processes, tables, columns, and account identifiers from its database that it considered trade secrets, close quote.

Speaker 2: So the court went on quote at this stage, particularly where no discovery whatsoever had occurred. And that's important. [00:12:00] It is not fatal to plaintiff's claim that it's hedging language left open the possibility of expanding its identifications later. The plaintiff's burden is only to identify at least one trade secret with sufficient particularity to create a triable issue, close quote, thus quote, rather than tendering the entire database to the court and asking the district judge to parse through it and determine what seems [00:12:30] valuable and generally unknown that is secret. The plaintiff made that determination itself close quote. Finally, the court held that the plaintiff should have been allowed discovery to refine the definition as needed quote, refining trade secret identifications through discovery makes good sense. The ninth circuit said the process acknowledges the inherent tension between a party's desire to protect

legitimate intellectual property [00:13:00] claims and the need for intellectual property law to prevent unnecessary obstacles to useful competition.

Speaker 2: Other courts have recognized that plaintiffs in trade secret actions may have commercially valid reasons to avoid being overly specific at the outset in defining their intellectual property. So that is in these trade secret cases. There, there always is an inherent tension or conflict [00:13:30] between the requirement to identify the trade secrets with sufficient particularity. So the defendant and the court know what you're alleging and you don't have fights over identification with the inherent interest to keep your secrets secret. You don't want to disclose too much because after all it is a trade secret, which is why there are various mechanisms [00:14:00] by which you put trade secrets before the court. One of the most common being filing under seal. And that's really an important enough issue to address in a separate episode. And we'll do that cause it's really a, a practical issue or a practical problem.

Speaker 2: You see a lot in these cases. So for those reasons, the summary judgment ruling was reversed. That is an, an important, a recent case on the sufficiency of trade secret identification for purposes of getting to a jury [00:14:30] and avoiding a summary judgment ruling because you didn't specify your trade secret. Definition enough. The next case we're going to discuss was out of the middle district of Pennsylvania this month, November, 2020. And this was a dispute between a company that makes quote environmental test chamber systems, its president, the president's son who was accused of stealing the company's trade secrets and environmental test chamber system is used by the military for environmental [00:15:00] tests that expose the test pieces to particulate matter. Typically either sand or dust in trained in an air flow. The president of this company, the plaintiff, the plaintiff's company was a veteran who founded the company and hired and trained his son to take over the business.

Speaker 2: The company claimed that it's trade secrets included, quote its financial business and marketing information and strategies, the names and particular needs [00:15:30] of its customers, the names and particular capabilities of its suppliers, its future product development and refinement plans, the prices it obtains or has obtained and the prices at which it sells or has sold products, information that is provided to the company on the condition or understanding that it'd be kept confidential, such as information concerning the strategies, preferences, and needs of its customers and its [00:16:00] own business methods, manner of operation, strategic direction, priorities and or plans close quote. The company said it takes various steps to protect that information, including quote, having new employees sign when they are hired standard confidentiality and non-compete agreements, limiting employee access to information on a need to know basis, limiting employee access to company, computer systems and [00:16:30] email on a need to use basis issuing each employee to whom access was granted with unique password protected credentials to access the company's computer systems and charging it's management, including here the son with responsibility for enforcing those policies and protecting the company's trade secret information.

Speaker 2: However importantly, here, the sun was not bound by a confidentiality agreement, even though [00:17:00] other employees were tensions developed between the father and

the son and the son left the company, he had stored the company's technical trade secrets, which were critical programmable logic controller and human machine interface, software files on a laptop. These proprietary files were used to control operation of an environmental test system for a major military project. The son failed to return the laptop despite multiple requests. And [00:17:30] after he left the company, the company's military customer whose software files were taken by the son experienced complications that required the original software to be restored on its system. The company was unable to restore the software because the son had taken the original version with him. So the client, the plaintiff's client contacted the son directly and the son restored the original software on the client system.

Speaker 2: The [00:18:00] company confirmed that the software used in the restoration was in fact its proprietary software, the company as being distinguished from its client and a forensic search revealed that the sun copied his work emails, financial accounting records, internal business files, customer information, sales and marketing information engineering related information, manufacturing related information and other [00:18:30] miscellaneous work data. Now we've mentioned, uh, many times on this podcast, the presence of forensic computer experts in these cases. And as you can see, it is critical. Uh, if you are a trade secret plaintiff where files have been taken electronically, which is generally how it happens now to engage early a, uh, highly competent forensic expert, uh, to investigate what happened, [00:19:00] preserve relevant data, and essentially give you comfort that either there was, or probably was not a misappropriation so that you can proceed accordingly. So based on this investigation and the forensic analysis, the company sued for violation of the defend trade secrets act and related claims.

Speaker 2: The defendant moved to dismiss the company claims to have technical trade secrets in the form of proprietary quote, programmable logic controller [00:19:30] and quote human machine interface, close quote software used with its test system. It also asserts ownership over non-technical trade secrets, including the confidential business information and other information I mentioned above that, that more broad customer related information that I listed the sun argued that the customer related information is not a trade secret at all, that his activities were legitimate competition. [00:20:00] And that in any event, the company failed to take reasonable measures to keep its information secret. So turning to the motion to dismiss first, the court analyzed whether the information was a trade secret at all. And we know what that means. We discussed it again today. It means it's secret valuable because it's secret and subject to reasonable efforts to maintain secrecy. And as we've discussed in the context of other cases, federal and state courts, look to the following factors to determine [00:20:30] if these three elements are met.

Speaker 2: One the extent to which the information is known outside of the company's business, to the extent to which the information is known by employees and others involved in the company's business. Three, the extent of measures taken by the company to guard the secrecy of the information for the value of the information to the company and its competitors [00:21:00] five, the amount of effort or money the company spent in developing the information and six, the ease or difficulty with which the information

could be acquired or duplicated legitimately by others, close quote, the court held that the company plausibly alleged that its customer data is a trade secret. It said quote, although customer data is ordinarily on the outskirts of unfair competition [00:21:30] law close quote, the company quote has described a uniquely valuable, confidential and guarded asset that it is developed while operating in a sensitive government contracting arena.

Speaker 2: It is plausible to infer from the allegations in the complaint that the customer data is the product of laborious and persistent enterprise. There is also no indication at this procedural juncture that the subject customer data is readily available from [00:22:00] non-private sources, such that it could no longer be considered secret. According to the complaint, the company has gone to great lengths to prevent this information from being disseminated outside the company, close quote, the court also noted that if the sun's business contacts were independently developed while in the company's employ quote, precedent suggests that such information would not be a trade secret, close quote, but only discovery. The court said will reveal [00:22:30] the true nature of the son's contacts. I E whether they are in fact, personal contacts, belonging to the sun or business contacts, belonging to the company, the court then turned to reason. So, so at the pleading stage, anyway, the court found the information was trade secret or that it was sufficiently alleged to be trade secret.

Speaker 2: The court then turned to the reasonable efforts requirement, noting quote, as a threshold matter, we are guided by the Maxim [00:23:00] that determinations regarding the reasonableness of a company's measures to protect corporate information are often best left for the finder of fact close quote. That means that it's harder to overcome this element at the pleading stage. First, the defendants argue that the software was stored only on a single laptop computer, but the court disagreed quote that the mere fact that the software was stored on a work laptop is proof that its [00:23:30] measures were unreasonable or that the company did not intend to keep that software confidential, close quote, the company alleges. It took a variety of steps to prevent its confidential information, proprietary information from reaching the public and quote. It is ultimately for the fact-finder to decide whether the totality of measures taken by the company was reasonable, close quote.

Speaker 2: Also, the complaint was not clear on the original storage location of the company software, [00:24:00] which permitted the inference that the files were once located on the company servers. Second, the defendants emphasized that the P the company's failure to bind the son to a confidentiality agreement, uh, was dispositive on the reasonable efforts issue. While this is a factor to be weighed. The court said, quote, defendants have not cited any authority for the proposition that the absence of [00:24:30] a confidentiality agreement close quote alone means the company's measures were unreasonable. And the company did implement other secrecy measures, including password, protecting its computer systems and limiting access to its information and systems. So, quote, the lack of an express contract establishing a duty is not dispositive of the reasonableness of the company's conduct. As non-contractual duties may exist. It is therefore plausible that the company's [00:25:00] measures were reasonable, close quote.

Speaker 2: And for that reason, the motion to dismiss was denied. And now to the takeaways, one, you can overcome summary judgment and a trade secret case by identifying what parts of a product R or system that you consider trade secrets actually are trade secrets, like in the ninth circuit case where the plaintiff identified aspects of its database, logic and architecture [00:25:30] with enough specificity to create a triable issue. Of fact, don't use catch all phrases or merely identify categories of information, rather specify the processes, tables, columns, identifiers, whatever is really secret in your product or in your information. And if you do that, you should at least be entitled to discovery to refine the definition further takeaway [00:26:00] number two, to support the pleading or proof of the elements of a trade secret address, the supporting factors. I'm not going to read them all again, but they start with the extent to which the information is known outside the company's business.

Speaker 2: The extent to which the information is known by employees and others involved in the business, the amount and time of investment, et cetera, those all weigh on the factors of whether something's actually secret valuable to the owners and the competitor, because it's secret [00:26:30] and subject to reasonable efforts to maintain secrecy. Next takeaway the reasonable measures to maintain secrecy, or rather whether efforts to maintain secrecy are reasonable enough is a fact question necessarily since it focuses on reasonableness and the absence of a confidentiality agreement alone, doesn't defeat this requirement as we've discussed a confidentiality agreement [00:27:00] is maybe the most common, uh, measure to maintain secrecy and trade secret cases. But the fact that it is absent in a particular case is not dispositive because there are many other in fact, countless ways, uh, to make reasonable efforts to maintain secrecy like password protection, uh, and, and all the other means we've discussed that as they say, is that, uh, thanks for your patience, everybody get that CLE credit for California anyway. And, uh, we [00:27:30] will do a urine,

Speaker 1: A few episode in December. Happy Thanksgiving, talk to you soon. 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 [00:28:00] and feel free to review us. Also, please subscribe. We're on apple podcasts, Stitcher, Spotify, and other platforms. Thanks everybody. Until next time,

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