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.

Speaker 2: Everybody. Welcome to episode 31. [00:00:30] This is our year in review episode, which will be a tradition going forward. We did one at the end of last year and, uh, I'm lucky to have with me today. My partner, Ashley Farrell Pickett. Ashley, how are you?

Good, good to be back Jordan. Thanks for having me. Yeah, it's, it's great to be, uh, speaking with someone instead of to myself sitting in the passenger seat of my car, uh, in a closed, like I did last episode, [00:01:00] I felt like crazy person. Like there should have been five cameras on the car roof or something.

Speaker 3: Well, that's a low bar, but nonetheless,

Speaker 2: It was, uh, it was the quietest place I could find. What can I say? All right, everybody. So this is essentially a compilation episode. We reviewed the episodes throughout the year and tried to pick out the most important ones, which is, I don't want to say arbitrary, but [00:01:30] obviously a subjective. We could have picked other cases. We don't want to make it too long or dense. Uh, and we shortened some of the discussions of cases we've addressed previously. Uh, so we're not just telling you exactly what we already discussed in a past episode. So the subjects we'll be addressing today, which, uh, were addressed at different parts of the year. Our number one, sort of the most applicable [00:02:00] subject for this year, which is reasonable efforts to maintain secrecy while working remotely. We had an episode on that right after the world shut down in March.

Speaker 2: We'll talk about subject matter jurisdiction under the defend trade secrets act compilations as a trade secret, that extra territorial application of trade secret law. And, uh, one of the recent cases we discussed, but I think very important sufficiently identifying trade secrets to avoid [00:02:30] summary judgment. So Ashley want to talk a little bit about the, the reasonable efforts requirement now that we're in this different world and presumably will be for the foreseeable future. I mean, who am I to say, but I don't even with the good news about vaccines, I don't see the remote working situation materially changing before at least several months. Uh, so [00:03:00] this issue continues to be ripe, uh, and, and is worth testing again.

Speaker 3: Yeah. I mean, absolutely look, millions of people have been working from home they're likely to continue to do so for the foreseeable future. Even once things, quote unquote, go back to normal. Look, there's probably going to be more just remote work in general, given that everyone now understands how to do so, companies are getting somewhat used to this. So all this to say that companies absolutely should be extra vigilant [00:03:30] and proactive with employees that have access to trade secrets now necessarily from their home office, as you know, has been discussed several times reasonable efforts or measures to maintain secrecy generally fall into four buckets. The first are contracts. The second are company policies. Third is the technology and four are the actual physical barriers. So given that this crisis is [00:04:00] ongoing companies

certainly might want to consider to focus on the buckets two and three company policies and technology.

Speaker 3: This is something that from the employment standpoint, um, we are constantly reminding our clients, look, employees are working from home. They thus may be more prone than usual to, for example, use their personal email or store sensitive documents locally on their computer. And if your company has technological protections such as VPNs or firewalls work [00:04:30] on company, computers and email will be more secure than working from home systems. And you'll have a better chance at showing that you took reasonable efforts to protect the trade secrets and proprietary information should something unfortunately come up in the future

Speaker 2: And with the remote workforce. Uh, it's a good idea. It's still a good idea to periodically have your, uh, it personnel test, uh, protections and, and patch any [00:05:00] technological, uh, holes. And if, if your company has policies about working remotely, uh, which again, company policies we think are one of the four buckets of, uh, kinds of reasonable measures to maintain secrecy. It's, it's worth sending a reminder. And speaking of reminders, Ashley, you, uh, mentioned the employment context and a reminder to this audience that Ashley, uh, is an [00:05:30] employment and Eleni labor and employment litigator. And that's why in addition to being friends, uh, she's a frequent guest on this podcast because of the, uh, intersection between trade secret law and employment litigation. So yeah, the next subject we'll address is subject matter jurisdiction under the defend trade secrets. And there was a case, uh, out of the district [00:06:00] of Massachusetts in March of this year, very momentous month.

Speaker 2: And in that case, uh, the plaintiff was a life sciences consulting firm that sued its business development manager for allegedly disclosing confidential information to her fiance who works at a competing firm. The confidential information consisted of client and consultant leads and proprietary documents, including a supplier agreement and the commission report, [00:06:30] the plaintiff sued under the defend trade secrets act and asserted related claims. And the defendants argued that the plaintiffs failed to establish subject matter jurisdiction under the defend trade secrets act and for the non-lawyers out there, what subject matter jurisdiction? Well, the defense rate secrets act is the federal trade secrets act. There are two levels of trade secret law in [00:07:00] this country. There's state law, uh, and, and federal law and no different with, uh, trade secret laws. So the defend trade secrets act is the federal version of the trade secret protection statute. And you can't just walk into federal court. You need the court needs jurisdiction over the subject matter. Hence the, uh, the name subject matter jurisdiction, Ashley, you want to take over from there. Sure. So,

Speaker 3: [00:07:30] You know, as we've addressed in the past, the tests for subject matter jurisdiction under the defend trade secrets act is whether the trade secret is related to a product or service used in or intended for use in interstate or foreign commerce. And so in this case, the defendants argued that because all parties or, um, Massachusetts based and the conduct was alleged to have occurred in Massachusetts, the test was not satisfied, but the court found that the plaintiff had [00:08:00] alleged a colorable nexus with interstate commerce for pleading purposes. And according to the amended

complaint, both the plaintiff and its clients, the life sciences firms conduct business across state lines. And the former business development manager had funneled to her fiance, not only the information concerning a specific Massachusetts based client, but also information derived from plaintiff's proprietary database, [00:08:30] which was a supplier agreement. And as a commission report that may impact arguably plaintiff's interstate business relations. And so that argument was enough to get it across the line of subject matter jurisdiction for this court, at least at the pleading stage.

Speaker 2:   And like in every episode, uh, we'll do, we'll give you our, our hard takeaways, including this one. Uh, at the end of the episode, the next subject we'll we'll [00:09:00] address, this is the concept of compilations as a trade secret, which is pretty common. This was a case out of the 11th circuit in may. All of the cases we discussed are from this year and there, the plaintiff developed and markets, a computerized mechanism for calculating organizing and comparing life insurance quotes and alleged that one of its competitors hacked its way into its system and stole its proprietary [00:09:30] data. The case went to a bench trial, meaning not a jury trial, just the judge and the judge ruled for the defendants, but the 11th circuit, the court of appeals reversed. And in that case, the plaintiff and the defendants were direct competitors in generating life insurance quotes, the plaintiff maintained a database of insurance premium information to which it's sold access called the transformative database. [00:10:00] The database was valuable because it contained current information on life insurers premium rate tables and thus allowed for the comparison of rates. Although the transformative database was based on publicly available information, it couldn't be replicated without a specialized method and formula known only within the plaintiff company.

Speaker 3:   And in this case, interestingly [00:10:30] enough, um, the plaintiff alleged that the defendants actually hired a hacker to scrape the data from its service, um, excuse me, from its server. And scraping is a technique for essentially extracting data from a website. So plaintiff alleged that the defendants then use the scraped data to generate quotes of their own, oh, excuse me, on their own websites. And the defendants didn't necessarily disagree. They just claimed that they didn't know the source of the scrape data and they innocently purchased it from a third party. [00:11:00] So the magistrate in this case ruled that the defendants hadn't to be clear, had not misappropriated any trade secrets. Um, the plaintiff appealed that case. And, um, the magistrate's decision had reasoned that the transformative database couldn't have been misappropriated by acquisition because the quotes that the hacker scraped were available to the public, um, as I noted, the plaintiff had appealed and the 11th circuit disagreed [00:11:30] with the magistrate

Speaker 2:   And also for the non-lawyers a magistrate is a type of federal judge. There are at the trial court level. There's two kinds of judges, magistrate judges, and district strict judges. Uh, and sometimes, uh, parties can consent to a magistrate for all purposes. Uh, but generally, um, they tend to handle narrower scope of issues within the case like discovery. So turning to the 11th [00:12:00] circuit's decision, the court of appeals, the 11th circuit said that the judge, the magistrate judge failed to consider quote the important possibility that so much of the transformative database was taken in a bit by bit fashion, that a protected portion of the trade secret was acquired close quote. And

the court of appeals said, quote, the magistrate judge was correct to conclude that the scraped quotes were [00:12:30] not individually protectable trade secrets because each is readily available to the public, but that doesn't in and of itself resolved the question of whether in effect the database as a whole was misappropriated. And even if quotes aren't trade secrets, taking enough of them must amount to misappropriation of the underlying secret. At some point, otherwise [00:13:00] there would be no substance to trade secret protections for compilations, which the law clearly provides close quote.

Speaker 3: Yeah. And so the 11th circuit also found that although plaintiff had quote, given the world implicit permission to access as many quotes as humanly possible, a robot can collect more quotes than any human practicably could. So while manually accessing quotes from plaintiff's standard base is unlikely ever to constitute [00:13:30] improper means using a bot to collect an otherwise infeasible amount of data may well be in the same way that using an aerial photography may be improper when a secret exposed to view from above. Um, so thus for example, one case held that hacking a public facing website with a bot amounted to improper means in that case, the trade secret owners failure to place a usage restriction on its website did not automatically render the [00:14:00] hacking proper.

Speaker 2: And remember, the, the 11th circuit said that the uniform trade secrets act protects information that quote derives independent economic value from not being readily ascertainable close quote and quote is the subject of, is the subject of efforts that are reasonable under the circumstances to maintain its secrecy close quote. So the magistrate judge quote, treated the wrong question as decisive, [00:14:30] namely whether the quotes taken were individually protectable, but he left undecided. The court of appeals said the truly determinative questions, which were one, whether the block of data that the defendants took was large enough to constitute appropriation of the transformative database itself. And to whether the means they employed were improper. The 11th circuit [00:15:00] said that those issues were to be addressed on the remand back to the district court. The next

Speaker 3: Case concerns extra territorial application of trade secret law. And it's a case from the Northern district of Illinois from July of 2020. Um, in that case, it concerned a motion for a temporary restraining order under the defend trade secrets act and the Illinois trade secrets act. And plaintiff was an Illinois based advanced battery and [00:15:30] power systems builder where the co plaintiff in this case was a Chinese subsidiary. So the two teams shared a network drive, including Chinese employees who left to join the defendant, uh, which was another company in China. Defendant was in the same business as the plaintiffs and the plaintiffs alleged that defendant poached high level personnel who downloaded over a hundred thousand confidential documents in source code from plaintiff's computers.

Speaker 2: Plaintiff's alleged that the defendant [00:16:00] knew the stolen documents and information originated at the plaintiff's Illinois headquarters. And again, w w why is it relevant where it originated because this case dealt with the issue of the extra territorial application of trade secret law. So the court said, quote, a threshold issue raised by the defendant is whether the statutes have extra territorial reach. I E whether they

[00:16:30] apply to conduct occurring outside the borders of the United States or Illinois in the case of the Illinois, uh, trade secrets act by its statutory terms, the defend trade secrets act applies to conduct occurring outside the United States. If, and here's the test, the offender is a natural person who was a citizen or permanent resident alien of the United States, or an organization organized [00:17:00] under the laws of the United States or a state or political subdivision thereof, or to an act in furtherance of the offense was committed in the United States close quote. And here, the plaintiff's evidence was quote that the stolen materials originated in Woodridge, Woodridge, Illinois, and were transferred to the employees who now work at the defendant [00:17:30] at those employees request by a shared servers or email close quote, which supported acts in furtherance of the defendant's alleged misappropriation for purposes of the defend trade secrets act.

Speaker 3:   Yes. And also the plaintiffs here presented evidence that marketed and sold in the United States, the battery products for which the trade secrets were allegedly taken to quote, found that the court, excuse me, found quote in particular, [00:18:00] a few months after the first known incident of mass downloading in early July, 2019, defendant attended a battery technology trade show in salt lake city to market and sell such battery products. Trade show attendance has been found to constitute an act in furtherance of a violation unquote, under the defend trade secrets act. And as to state law, the Illinois trade secrets act, um, the court found that under the Illinois principles of statutory interpretation, which applied, [00:18:30] uh, interpretation of the IDSA, when a statute is silent as to any extra territorial effect, there is a presumption that it has none, however, quote, even if the ITSI does not apply extra territorially plaintiffs might nonetheless pursue a claim under that statute if doing so would not in fact, require extra territorial application of the statute. So to determine whether a particular claim requires a statute [00:19:00] to be applied extra territorially Illinois courts consider whether the circumstances relevant to the claim are alleged to have occurred primarily and substantially in Illinois.

Speaker 2:   And here, given the court said, quote, given that the employees accused of stealing plaintiff's trade secrets are Chinese nationals working in China were employed by one Chinese corporation before moving to employment [00:19:30] at another Chinese corporation. The defendant, it appears unlikely that the plaintiffs could prevail on a theory that the relevant circumstances occurred primarily and substantially in Illinois. But quote, with that said to the extent the court is wrong about plaintiff's ability to proceed under the Illinois trade secrets act, it's merits analysis of the defend trade secrets act claim. The federal claim [00:20:00] would apply substantially to the Illinois trade secrets act claim as well because quote, the pertinent definitions of the two act overlap close quote. And the last case we're going to discuss today is one we discussed recently, but I thought was important enough to include in the year end review because it's, uh, a common issue in these cases.

Speaker 2:   And that is the [00:20:30] issue of sufficiently identifying trade secrets to avoid summary judgment, as, you know, trade secret identification. That's probably the most common and you see it ruled on frequently at the pleading stage that is at the beginning a lawsuit, but it also comes to a head when the defendant moves for summary judgment

after discovery and says, even after all this discovery, you still can't identify your [00:21:00] alleged trade secrets particularly enough. And sometimes it even arises at trial, but this case deals with the issue of how particular do you have to be in your trade secret identification to get past summary judgment and get to a jury. And as the ninth circuit framed, the issue at issue was quote, the requisite particularities with which trade secret misappropriation plaintiffs must [00:21:30] define their trade secrets to defeat a motion for summary judgment closed.

Speaker 3: Yeah. So in this case, the plaintiff sought to protect its interests in quote, the logic and architecture of its securities tracking database. While the defendant maintained that its newer system is an independent improvement to the securities tracking marketplace. But before reaching the question of whether the defendant misappropriate the plaintiff's trade secrets, the court held that it must identify the alleged [00:22:00] alleged trade secrets and decide if in fact they are protectable. In the first instance,

Speaker 2: The plaintiff developed this system, uh, I'm not going to name the system, uh, because we don't specifically identify the cases in, in this podcast. So the plaintiffs developed this system, which was a comprehensive electronic system for managing stock brokerage firm, accounting, securities clearance, and security settlement [00:22:30] services. The defendant licensed the system and a software license agreement. And later terminated that agreement shortly thereafter, the defendant deployed its own new electronic trading system and the plaintiff's systems architect noticed 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 unique names [00:23:00] in a column as used in the plaintiff system.

Speaker 3: And so the parties negotiated actually for months and the defendant allowed plaintiff's forensic expert to examine its software and issue a report. The report from that expert stated quote, in fact, so striking where the similarities that it appeared to us, that defendant system had been constructed by a programmer who had one eye on the plaintiff system, [00:23:30] 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 by depicting her on the canvas and quote. So plaintiff, especially on the receiver's report, sued for violation of defend trade secrets act and for the California uniform trade secrets act,

Speaker 2: The district court granted the defendant's motion for summary judgment and held that the plaintiff failed to sufficiently identify which elements of the plaintiff [00:24:00] system were allegedly trade secrets. And that the summary judgment ruling went up to the ninth circuit. The court of appeals began its analysis by discussing the broad definition of a trade secret and noting its three elements, uh, essentially information that is valuable because it is unknown to others. And that the owner has attempted to keep secret. That is a reasonable efforts to maintain secrecy. And as we well know, uh, the ninth [00:24:30] circuit said, quote, the plaintiff should describe the subject matter of the trade secret with sufficient particularity to separate it from matters of general knowledge in the trade or special knowledge of those persons skilled in the trade plaintiffs must clearly refer to tangible trade secret material instead of referring to a system which potentially qualifies for trade secret protection plaintiffs may not simply

rely upon catch all phrases [00:25:00] or identify categories of trade secrets categories with emphasis my emphasis, not the courts of trade secrets. They intend to pursue a trial close quote.

Speaker 3: And so identifying trade secrets with sufficient particularity the court recognized is important because defendants need concrete identification to prepare rebuttal courts injuries also require precision because especially where a trade secrets claim involves a sophisticated [00:25:30] and highly complex system, the district court, or the trier of fact will not have the requisite expertise to define what the plaintiff leaves abstractly. So at the highest level of generality, the court said plaintiff described its trade secret as the system's unique design and concepts and the unique software formulas processes, programs, tools, techniques, tables, [00:26:00] fields, functionality, and logic by which its components interrelate and process data. And in response to defendant's motion for summary judgment, plaintiff produced two declarations where the system architect expanded on the initial definition and described specific features of the system as trade secrets and the specific tables table columns, account identifiers codes and methodologies that plaintiff [00:26:30] claimed were trade secrets. Defendant argued. It was unclear at what methodology means.

Speaker 2: So those were a lot of words that, that the plans have used and, and pretty broad, but the court held that was enough to reach a jury, meaning enough to survive summary judgment, holding quote, that there is a genuine issue of material fact as to whether plaintiff identified its trade secrets with sufficient [00:27:00] particularities. And by the way, for the non-lawyers, if there's an issue of fact, you don't get summary judgment because jurors are the triers of fact, if there's no issues of fact and the court can rule as a matter of law. And that is what a summary judgment is. So the court said there was a genuine issue of material fact as to whether the plaintiff identified its trade secrets with sufficient particularities, a reasonable jury could [00:27:30] 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 a catchall or catch all phrases or merely identifying [00:28:00] categories of information, the architects, the system architects declaration, which was filed under seal to protect the proprietary information, specified the program, processes, cables, columns, and account identifiers from its database that it considered trade secrets, close quote.

Speaker 3: Yeah. So the court, how that essentially at this stage, particularly where no discovery whatsoever had occurred, [00:28:30] it is not flight fatal to plaintiff's claim that it's hedging led language left open the possibility of expanding its identification later plaintiff's burden is only to identify at least one T trade secret with sufficient particularity to create a triable issue. So in other words, quote, rather than tendering the entire database to the court and asking the district judge to parse through it, to determine what seemed valuable in generally unknown plaintiff [00:29:00] made that determination itself court.

Speaker 2: And finally, the court held that the plaintiff should have been allowed discovery to refine its definition of trade secrets as needed holding quote refining trade secret identifications through discovery makes good sense. The process acknowledges the inherent tension between a party's desire to protect legitimate intellectual property claims and the need for intellectual [00:29:30] property law to prevent unnecessary obstacles, to useful competition. Other courts have recognized that plaintiffs and trade secret actions may have commercially valid reasons to avoid being overly specific at the outset in defining their intellectual property close quote, and therefore the ninth circuit reversed the summary judgment ruling. So that is our annual recap. [00:30:00] And now for the takeaways, one, if your employees with access to trade secrets are working remotely, make sure they stick to your company network, which should have protections like passwords and firewalls and remind those employees about your policies in this regard.

Speaker 3: Yes. And I would just add to that very briefly, you know, it's a good time to go back and look at your policies also and just make sure they are as comprehensive as needed, [00:30:30] certainly no harm and beefing those up and redistributing them for execution by all of your employees. I'm much rather have that than be trying to rely on something that is a bit outdated, especially given the current circumstances and work at home. Another takeaway that we have is for purposes of summary judgment under the defend trade secrets act related to a product or service used in or intended for use in interstate or foreign commerce can include [00:31:00] at least in Massachusetts doing business across state lines and stolen information that impacts the plaintiff's interstate business relationships.

Speaker 2: Takeaway number three is that compilations can be protected trade secrets, even if they contain public information and are not readily ascertainable, thus it's improper to deny trade secret protection of a compilation simply because individual data within [00:31:30] it are public. The question is whether the compilation as a whole is not readily ascertainable. That's the key absence. Some improper means like hacking.

Speaker 3: The next takeaway is funder. The defend trade secrets act that act applies to conduct occurring outside the United States. If the offender is a natural person who is a citizen or permanent resident alien of the United States or an organization [00:32:00] organized under the laws of the United States or a state or political subdivision thereof for further, if an act and further ends of the offense was committed in the United States.

Speaker 2: So that's the test for extra territorial application. Also, the next takeaway is that stealing materials that originated in the U S and transferring them to employees abroad electronically constitute acts in furtherance of misappropriation [00:32:30] for purposes of the defend trade secrets act.

Speaker 3: And so does marketing and the stolen trade secret at a trade show.

Speaker 2: Correct. And the last takeaway is that you can overcome summary judgment by identifying what parts of a product 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 [00:33:00] and architecture with enough specificity to create a tribal issue effect, don't use catch all phrases or merely identify categories of information, specify the processes, the tables, columns, identifiers, whatever parts are really secret in your product or system. And if you do that, you should at least be entitled to discovery to refine the definition and not be caught in summary judgment. That's it for [00:33:30] the great year of 2020. So I just want to thank all of the listeners for sticking with us for a year and a half now, and particularly in this ridiculous year. Um, we're, we're very grateful. We're over 5,000 downloads, which I think is good for a legal podcast. It stayed pretty consistent. Um, and as always, we value your feedback. Uh, we hope you're well, and we will be back [00:34:00] in January for season three. Thank you very much, everybody and happy holidays.

Speaker 3: Yes. Happy holidays. And we'll see everyone in 2021.

Speaker 1: 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 [00:34:30] 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,

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