

Jordan: Hey everybody, welcome to episode 44 of the Trade Secret Law Evolution Podcast. This episode should be a pretty short one. We're just going to talk about one case out of the Southern District of New York from last month, but it was an interesting case. It discussed the grant of summary judgment against trade secret claims and has a good analysis of the kind of proof that a trade secret plaintiff [00:00:30] needs to survive summary judgment and get to trial. And specifically, the court talked about proof of misappropriation, sufficient proof of unjust enrichment, which is a potential remedy for trade secret misappropriation, and proof of lost profits, which is another potential remedy for misappropriation.

So in this case, the parties were in the translation and litigation support business, [00:01:00] very valuable business, and the plaintiff was subject to a for sale pursuant to the petition of one of its founders. Defendant one, there are two defendants I'm going to talk about in this case. Defendant one participated in the auction and had acquired defendant two. After the acquisition of defendant two, defendant one signed a confidentiality agreement with the plaintiff for purposes [00:01:30] of defendant one's due diligence as a potential buyer of the plaintiff.

And so in that capacity, defendant one was given access to the plaintiff's information for due diligence purposes. The confidentiality agreement didn't allow defendant one to share the information to the whole of defendant two, but only for the purposes of facilitating the due diligence process. And the agreement also required the destruction [00:02:00] or return of the information upon the plaintiff's request. So in the due diligence, the defendant one used certain information in its evaluation to which it had been mistakenly given access, including customer revenue information to produce an analysis of the plaintiff's pricing trends over time. Defendant one's advisor used the customer-specific information to create [00:02:30] a list of the plaintiff's top customers by revenue and to analyze customer overlap between defendant two and the plaintiff to evaluate revenue dis-synergies. These analyses were shared with defendant one. There was no evidence that the plaintiff pricing information or customer-specific information was shared with those [00:03:00] at defendant two, who are responsible for defendant two's pricing processes. Later defendant one, and the plaintiff amended the agreement and they called it the clean room agreement.

Pursuant to the clean room agreement a separate folder was set up in the room, "the clean room," quote, unquote, to which only certain attorneys for defendant one had access. And they could " [00:03:30] not identify customer names or pricing, cost or similar competitively sensitive information." After the due diligence, another buyer not the defendants was selected. Later, the plaintiff filed the action for trade secret misappropriation. And in the discovery process identified 92 documents that it contained trade secrets. The court discussed the elements of [00:04:00] a trade secret under the federal Defend Trade Secrets Act and New York law. And as we know the elements of the Defend Trade Secrets Act and the Uniform Trade Secrets Act adopted in 48 states are that business information constitutes a trade secret if, "A, the owner thereof has taken reasonable measures to keep such information secret. And B, the information derives independent economic value actual [00:04:30] or potential from not being generally known to and not being readily ascertainable through proper means by

another person who can obtain economic value from the disclosure or use of the information."

And as we've discussed in plainer English, that just means that a trade secret, Or rather information or material is a trade secret if it is actually secret, [00:05:00] valuable to the owner and its competitors because of its secrecy and subject to reasonable measures by the owner to maintain the secrecy. It's worth mentioning the elements of New York law too. Since New York is one of the two states that does not adopt the Uniform Trade Secrets Act, but the elements of a trade secret are substantively similar in New York.

In New York, courts consider the following when determining [00:05:30] whether information constitutes a trade secret, "One, the extent to which the information is known outside of the business. Two, the extent to which it is known by employees and others involved in the business. Three, the extent of measures taken by the business to guard the secrecy of the information. Four, the value of the information to the business and its competitors. Five, the [00:06:00] amount of effort or money expended by the business in developing the information. Six, the ease or difficulty with which the information could be properly acquired or duplicated by others."

So as you can see, those elements are more detailed than the elements under the Uniform Trade Secrets Act or Defend Trade Secrets Act, but substantively, they largely overlap if not just [00:06:30] specify the requirements of the former to act. So back to the case, the court found that the plaintiff demonstrated that two categories of information were accessed by the defendants, or rather that two categories of the information accessed by the defendants were trade secrets. And that was plaintiff's "average payment to its freelance linguists in terms of cents per word, and its revenues per [00:07:00] customer for" certain years, according to the plaintiff, the defendants use this information to identify and compete for the business of two of its largest clients.

However, the court found insufficient evidence of misappropriation. One kind of misappropriation is as we've discussed, acquisition of the trade secret by improper means. Here the court found the agreement explicitly permitted defendant [00:07:30] one and its representatives to access the due diligence material and the plaintiff's custodian's erroneous uploading of unredacted documents that included the trade secrets did not create a breach by the defendants. Also, the plaintiff never requested the return or destruction of the information and that's important. Therefore, the court said plaintiff did not produce sufficient evidence to show that the defendants [00:08:00] acquired the documents by improper means.

The plaintiff also alleged that defendant one improperly disclosed trade secrets to the defendant two sales team, which used customer pricing data to poach two major plaintiff clients. This allegation was based on evidence that the trade secret information was located among the files of a certain employee, but the court found "there is no documentary or testimonial evidence [00:08:30] to support the plaintiff's speculation." The court also found insufficient evidence of damages. For trade secret misappropriation a plaintiff can recover damages for actual loss and damages for unjust enrichment among other things. As to unjust enrichment, the plaintiff's proof didn't

identify the trade secrets from which defendant two had allegedly been unjustly [00:09:00] enriched. The report produced by the plaintiff "only generally identifies its sources of information and they are wide-ranging. There has been no showing that the plaintiff's trade secrets are responsible for any particular part" of the analysis. Thus, the court said, "there is no way to determine what trade secrets are at issue in this calculation of damages." And for these and other reasons [00:09:30] that aren't really worth discussing here, summary judgment was granted.

So to the takeaways, because there are several from this one case. One, mistaken receipt of trade secret information does not constitute acquisition by improper means or therefore misappropriation. However, if you notice that you received information mistakenly, that might be trade secret information, it is of course, prudent [00:10:00] to return it. Two, the failure of the plaintiff to request return or destruction of trade secret information could cut against a finding that the recipient acquired it by improper means like in the case we just discussed.

So if you think someone mistakenly or unlawfully got access to your trade secrets, demand them back and make a record of it, do it in writing. [00:10:30] Three, the presence of a trade secret file in an employee's presence is not enough to prove misappropriation. This proof alone could be considered insufficient speculation. You need to show that the employee or the defendant actually acquired the trade secret by improper means or used or disclosed it. Fourth and finally, when seeking unjust enrichment damages, make a showing [00:11:00] that the plaintiff's trade secrets are responsible for a particular part of the unjust enrichment. In other words, tie the trade secret to the unjust enrichment. In the Southern District of New York case, the report produced by the plaintiff did not tie any particular trade secret to the unjust enrichment and that was found to be insufficient. Hope that helps everybody. Hope everybody's well, stay safe. Talk to you next month.