

**Trade Secret Law Evolution podcast**  
**Episode 54**  
**Greenberg Traurig**

Speaker 1 ([00:00](#)):

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Jordan Grotzinger ([00:18](#)):

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.

([00:38](#)):

Welcome to episode 54 of the podcast. First, I want to introduce my colleague, Jon Widjaja. Jon, welcome.

Jon Widjaja ([00:46](#)):

Happy to be here, Jordan. Thank you.

Jordan Grotzinger ([00:48](#)):

Sure. Can you say a few words about yourself and your practice?

Jon Widjaja ([00:53](#)):

Yeah. I'm a first year litigation associate here in the LA Office of GT, and my practice includes real estate litigation, IP disputes, and as a junior, just anything I can get my hands on in the office, really.

Jordan Grotzinger ([01:09](#)):

I hear you. And now your IP experience includes starting to learn a little bit about trade secret law, which is great.

([01:17](#)):

So this episode is a little bit different than our usual format. Usually, as you know, we've got a couple of subject matters, we discuss a few cases that address those subject matters, which generally concern new wrinkles or developments in the law, and then we discuss a handful of takeaways, followed of course by the fun fact about our co-host. Today's different, and the subject we're going to be discussing is, or the issue we're going to be discussing, is reconciling the concept of vicarious liability with the concept of indirect misappropriation. So you often see cases where a company allegedly onboards a former employee of a competitor who had the competitor's trade secrets, but the company knew nothing about that. And in thinking about such a case recently, an issue occurred to me. Under vicarious liability law, or agency law, generally speaking, a principle can be liable for the conduct of its employee if the conduct is within the scope of employment.

([02:38](#)):

And in some states like mine, California, that sometimes can mean that the principle can be liable even if it didn't know about the employee's conduct. And I'll reserve comment on whether I think that makes sense, but that is the law. However, trade secret law and specifically the State Uniform Trade Secret Act and the Federal Defend Trade Secret Act have a seemingly different test. Under trade secret law, the scenario I described comes within the context of what's called indirect misappropriation, which we've addressed on the podcast before. And that is where the defendant did not itself misappropriate, but might be liable for somebody else's misappropriation. And under the trade secret statutes, indirect misappropriation requires that the defendant principle either knew or should have known about the direct misappropriator's misappropriation. To me, that seemed a little different than the seemingly more broad test for vicarious liability, which is based on, as I said, whether the agent's conduct is within the scope of the agency.

[\(03:56\)](#):

So in this episode, we, essentially me and Jon, did a deep dive to reconcile these two concepts and clarify what test applies in trade secret cases in the scenario I described. And the answer is that, generally speaking, the courts that address this issue, and not all indirect misappropriation cases do, look to whether the employee's conduct was foreseeable, which is an issue courts consider in determining various liability. And the answer to that question colors whether the company, "Knew or should have known of the employee's conduct."

[\(04:38\)](#):

So Jon, want to talk about a few cases that you looked at?

Jon Widjaja [\(04:42\)](#):

Yeah, so an example of a case that doesn't specifically address this new or should have known test for indirect misappropriation, but instead only generally relies in vicarious liability law in a trade secret case is a 2022 case out of the District of Arizona. And so there, the plaintiff alleged that an individual formed a competing company and tried to take the plaintiff's allegedly trade secret patients. And the court there said, "It is well established that traditional vicarious liability rules ordinarily make principles or employers vicariously liable for the acts of their agents or employees in the scope of their authority or employment. A business entity may be liable or intentional towards committed by the agent or employee, such as misappropriation of trade secrets, even if the business has not authorized the activity, so long as the activity falls within the scope of the agency or employment. Conduct is considered within the scope of employment when it is performed, at least in part to benefit the employer." So here, the court held, the plaintiff plausibly pled misappropriation liability of the defendant company citing other cases for general vicarious liability principles.

Jordan Grotzinger [\(06:17\)](#):

So those general principles don't address specifically the related concept of indirect misappropriation, which as I said, seems to have different requirements. As a very recent case from this April out of the Southern District of California said, "The Defend Trade Secrets Act permits a court to enjoin any actual or threatened misappropriation. Courts distinguish between direct trade secret misappropriation claims and indirect trade secret misappropriation claims depending on whether a plaintiff alleges that a defendant obtained the trade secrets directly from the plaintiff or indirectly from someone other than the plaintiff." The court also explained or defined indirect misappropriation as, "Indirect misappropriation includes the disclosure or use of a trade secret of another when at the time of disclosure or use, the person knew or had reason to know that the knowledge of the trade secret was derived from or through a person who owed a duty to the person seeking relief to maintain the secrecy

of the trade secret or limit the use of the trade secret. Both state and federal courts in California have held that a plaintiff must prove more than a defendant's mere possession of trade secrets."

[\(07:46\)](#):

And more specifically, the statute itself, the Federal Defend Trade Secrets Act, defines indirect misappropriation as, "Disclosure or use of a trade secret of another without express or implied consent by a person who," and I'll insert an ellipsis right there, "At the time of disclosure or use, knew or had reason to know that the knowledge of the trade secret was one, derived from or through a person who had used improper means to acquire the trade secret. Two, acquired under circumstances giving rise to a duty to maintain the secrecy of the trade secret or limit the use of the trade secret. Or three, derived from or through a person who owed a duty to the person seeking relief to maintain the secrecy of the trade secret or limit the use of the trade secret. Or before a material change of the position of the person, knew or had reason to know that, one, the trade secret was a trade secret, and two, knowledge of the trade secret had been acquired by accident or mistake."

[\(09:02\)](#):

So the words that jump out to me in that statute are the repeated words, knew or had reason to know. That's the state of mind that the principle had to have had in order to potentially be liable for somebody else's misappropriation. Knew or had reason to know. And that's why it was funny to me, reading cases both generally about agency law, which just talk about if the conduct is within the scope of the agency or within the scope of the employment, there might be vicarious liability law, without discussing that knowledge requirement, and some of the trade secret cases that don't specifically address this language in the indirect misappropriation statute like the case that Jon just described.

[\(10:00\)](#):

So Jon, how do we reconcile these two concepts?

Jon Widjaja [\(10:03\)](#):

Yeah, so just to reiterate again, so on one hand you have the conduct within the course of employment tests, which is under vicarious liability. And on the other hand, you have the knew or should have known test under the trade secret statutes for indirect misappropriation. And a 2013 case out of the Central District of California puts these two concepts together. And so there, the federal court granted preliminary injunctive relief to stop a company and its employees from using customer lists that were deemed to be a trade secret.

[\(10:44\)](#):

And a side note here is that this is 2013, which is three years before the 2016 enactment of the Federal Defend Trade Secrets Act, but the Uniform Trade Secrets Act on which the DTSA was modeled and which 48 states adopt, was in effect. So in this case, three advertising sales managers took their customer list, quit their jobs, and started working for a competitor. And the court found that plaintiff sufficiently showed a likelihood of success on its misappropriation claim against the defendant employer under the doctrine of respondeat superior, which is vicarious liability, by looking at whether the misappropriation was foreseeable. And here the court stated, "Under the doctrine of respondeat superior, an employer may be held vicariously liable for torts committed by an employee within the scope of employment. And in general, an employer may be held liable for intentional torts of its employees if the tort was foreseeable."

[\(12:06\)](#):

The court then looked at whether the defendant employer knew or had reason to know of the misappropriation. And here because plaintiff presented evidence that the defendant employer knew that the defendant employees might misappropriate plaintiff's customer list, the court concluded that the misappropriation was foreseeable and thus granted preliminary injunctive relief against all parties.

Jordan Grotzinger ([12:35](#)):

And similarly, in a 2001 case out of Minnesota, the Minnesota Supreme Court reversed the finding of vicarious liability on the employer because the employee's trade secret misappropriation was not foreseeable. There, an insurance agent sold his insurance agency to company A, and then began working for company B while continuing to use his old customer lists. The Minnesota Supreme Court stated that, "Misappropriation of trade secrets is an intentional tort and tortious conduct can provide the basis for vicarious liability."

([13:17](#)):

Further, the court noted that, "An important consideration in determining whether an act is related to the duties of employment is whether the act was foreseeable." And in analyzing foreseeability, the court stated, "We require only a measure of foreseeability such that an employee's conduct is not so unusual or startling that it would seem unfair to include the loss resulting from it among other costs of the employer's business." And the standard of foreseeability is commonly proven when, "The type of tortious conduct involved is a well-known industry hazard." Here, the court found that company A failed to show evidence that the misappropriation was either foreseeable or a well-known hazard in the insurance industry. The court relied on the trial court's finding that company B did not know or have reason to know about the insurance agent's trade secret law violation. Thus, the court ruled that company B was not vicariously liable.

Jon Widjaja ([14:30](#)):

And at the end of last month, an interesting case came out of the Northern District of California where the court granted summary judgment in favor of defendants because the plaintiff failed to raise a tribal issue of fact as to whether a defendant employer knew or should have known of the employee's alleged trade secret misappropriation. And in this case, the court did not actually use foreseeability in vicarious liability to get to the new or had reason to know requirement, but the court rather jumped directly from vicarious liability to the mental capacity requirement of the statute. And so here, a former employee of company A went to work for a competitor company B, and allegedly took information for an unreleased Bluetooth headset product. And the court ruled that even if company A raised a tribal issue of fact as to company B's vicarious liability for a disclosure or use of the alleged trade secrets, which I did not, company A, "Must also show that any such disclosure or use was made when company B knew or had reason to know that the information was either, one, obtained by improper means, or two, subject to a duty to maintain its secrecy or limit its use." And this is citing the DTSA in parallel California Uniform Trade Secret Act language.

Jordan Grotzinger ([16:13](#)):

One case out of Indiana, although from 2004, which was 12 years before the Defend Trade Secrets Act, but when the Uniform Trade Secrets Act was in effect, held that the respondeat superior doctrine conflicts with the Uniform Trade Secrets Act and is thus displaced by the statute. Therefore, the court said an employer can't be held vicarious liability, "Absent the proof of scienter required by the Uniform Act." Scienter is a legal word for state of mind. So here, in effect, this 2004 Indiana case said, no, we are not applying general vicarious liability law. We're looking only to the statute. The statute sets forth what

trade secret law is, and under trade secret law, you've got to have that mental state, that knew or had reason to know. And so that case seemingly was an outlier, but weighs against the application of general agency law in favor of looking only to the statute when analyzing indirect misappropriation.

[\(17:29\)](#):

So our takeaway today is that courts look to whether the employee's conduct was foreseeable, which is an issue they consider in determining vicarious liability. And the answer to that question weighs on whether the employer, "knew or should have known," of the employee's conduct. That is the more foreseeable, the more likely a finding of knew or should have known. But don't forget, cases like that 2004 Indiana case, if you want to argue against the application of general agency law, that maybe when you're looking at indirect misappropriation, you just look to the statute. But so far, the weight of authority looks through the lens of foreseeability, which is a lens that arises from agency law, and uses the answer to that issue to come to the answer of whether the indirect misappropriator knew or should have known of the direct misappropriator's conduct.

[\(18:40\)](#):

Okay, Jon, thanks for figuring that out.

Jon Widjaja [\(18:44\)](#):

My pleasure.

Jordan Grotzinger [\(18:45\)](#):

Interesting issue.

Jon Widjaja [\(18:46\)](#):

Yeah.

Jordan Grotzinger [\(18:47\)](#):

Now for my favorite part of the podcast, we talked about this yesterday, but we need to hear a fun fact about you that has nothing to do with the law or trade secret law. We've had people who were former state troopers, we've had people who worked on stock exchange floors, we had someone who allegedly broke his arm arm wrestling a document services professional, and other fun stories. So what do you have to share with us today?

Jon Widjaja [\(19:19\)](#):

Well, Jordan, as you know, I'm an avid 3D printer, but here's something you don't know, is that right after I took the bar exam last summer, I took a road trip along the Pacific coastline from LA to Vancouver, that was entirely funded by the generous strangers of Reddit, the forum discussion-oriented social media. And how that worked was I had this license to 3D print these Tesla charging locks for use at public chargers so random strangers can't just pull your charger out. And so I posted on Reddit about how I dropped off a few of them for free at a supercharger, and then people had the idea to donate money to me to do this on a larger scale, and it turned into this cross country road trip that people just all crowdfunded and I just dropped off these lock set superchargers as I went. So that was one of my bar trips.

Jordan Grotzinger [\(20:22\)](#):

That's a score right there. You are in the conversation for most interesting story. So what exactly were you 3D printing with respect to these chargers?

Jon Widjaja ([20:33](#)):

So there's this issue if you use a public charger, a non supercharger, that they don't lock into your car so strangers can just unplug them. And so you put this lock on, that I 3D printed, and it just prevents the button from being pushed and being pulled off.

Jordan Grotzinger ([20:55](#)):

So you 3D printed essentially a lock that is fastened to a Tesla charger that is plugged into a public non-Tesla charger?

Jon Widjaja ([21:10](#)):

Yeah.

Jordan Grotzinger ([21:11](#)):

Wow.

Jon Widjaja ([21:11](#)):

So it keeps it in, and so people can't just come in and unplug your car, and so it prevents that and-

Jordan Grotzinger ([21:19](#)):

That's awesome.

Jon Widjaja ([21:20](#)):

People loved it online and I got a nice bar trip out of it.

Jordan Grotzinger ([21:25](#)):

Yeah. How many of those did you sell?

Jon Widjaja ([21:27](#)):

Well, I never really sold them. I always dropped them off for free. But the people on Reddit, they come up with all these great ideas, so they put together these business cards, and so if you pick them up, there's a QR code that, one, instructs you how to use them, and then two, has a link where you could chip in a few dollars for the next few locks.

Jordan Grotzinger ([21:53](#)):

That's a really cool story. I take it that these locks exist and that you're not the only one who's ever manufactured them?

Jon Widjaja ([22:04](#)):

Yeah, that's correct.

Jordan Grotzinger ([22:05](#)):

Oh, okay.

Jon Widjaja ([22:06](#)):

People are selling them online. But I had a license from this one guy who designed it, and then he loved the idea, and so he let me use it as much as I wanted to, and it worked out. Handing things out for free and people just chipping in along the way.

Jordan Grotzinger ([22:23](#)):

What a great way to earn money for a cool trip.

Jon Widjaja ([22:28](#)):

Yeah, it was fun.

Jordan Grotzinger ([22:30](#)):

That's a great story, man. I appreciate it. Okay, that's all we got for today, Jon. You were a natural. Definitely want you back and need to get you-

Jon Widjaja ([22:38](#)):

Wow.

Jordan Grotzinger ([22:39](#)):

Involved in some of these cases. Thank you for doing the heavy lifting on this one, and I'll see you again soon.

Jon Widjaja ([22:47](#)):

Sounds good. Thanks for having me, Jordan.

Jordan Grotzinger ([22:49](#)):

All right. Bye everybody.

([22:53](#)):

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](mailto:grotzingerj@gtlaw.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 Podcast, Stitcher, Spotify, and other platforms. Thanks everybody. Until next time.

Speaker 4 ([23:24](#)):

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