Arent Fox

Trade Secrets, Non-Competes & Employee Mobility

2021 Trade Secrets End of Year Report

Electric Mobility

Smart In Your World

arentfox.com

Contents

Key Case Summaries

Smarter Service

Safeguarding Your Critical Assets

Trade secrets are often among a company's most valuable assets. From conducting trade secret audits and drafting trade secret policies and confidentiality agreements, to litigating misappropriation and non-compete cases in venues across the country, Arent Fox attorneys have the experience to help clients safeguard their critical assets.

Authors




Linda M. Jackson
Partner, DC
202.775.5785
linda.jackson@arentfox.com

Alexander H. Spiegler
Partner, NY
212.457.5454
alexander.spiegler@arentfox.com

Lauren C. Schaefer
Associate, BOS
617.973.6120
lauren.schaefer@arentfox.com

Allan E. Anderson
Partner, LA
213.443.7683
allan.anderson@arentfox.com




Robert K. Carrol
Partner, SF
415.805.7973
robert.carrol@arentfox.com

Nicholas J. Nesgos
Partner, BOS
617.973.6168
nicholas.nesgos@arentfox.com

Alexandra M. Romero
Partner, DC
202.828.3469
alexandra.romero@arentfox.com

Sara T. Schneider
Partner, LA
415.757.5911
sara.schneider@arentfox.com




Jake Christensen
Associate, SF
415.805.7998
jake.christensen@arentfox.com

Genine Cumba
Associate, LA
213.443.7687
genine.cumba@arentfox.com

Nathaniel Hyman
Associate, BOS
617.973.6139
nathaniel.hyman@arentfox.com

Natalie C. Kreeger
Associate, LA
213.443.7693
natalie.kreeger@arentfox.com

Authors (cont.)

Pascal Naples
Associate, DC
212.484.3985
pascal.naples@arentfox.com

Morgan R. Pankow
Associate, DC
202.857.6495
morgan.pankow@arentfox.com

Nadia Patel
Associate, DC
202.775.5716
nadia.patel@arentfox.com

Jodi Tai
Associate, SF
415.805.7993
jodi.tai@arentfox.com

Sanum Patel
Law Clerk, NY
212.457.5467
sanum.patel@arentfox.com

Our Team

Linda M. Jackson
Partner, DC
202.775.5785
linda.jackson@arentfox.com

Allan E. Anderson
Partner, LA
213.443.7683
allan.anderson@arentfox.com

Alexander H. Spiegler
Partner, NY
212.457.5454
alexander.spiegler@arentfox.com

Michael L. Stevens
Labor & Employment Practice Group Leader, DC
202.857.6382
michael.stevens@arentfox.com

Jerrold Abeles
Partner, LA
213.629.7407
jerry.abeles@arentfox.com

Taniel E. Anderson
Partner, DC
202.857.6320
taniel.anderson@arentfox.com

Robert K. Carrol
Partner, SF
415.805.7973
robert.carrol@arentfox.com

Amal U. Dave
Partner, DC
202.857.6336
amal.dave@arentfox.com

Darrell S. Gay
Partner, NY
212.457.5465
darrell.gay@arentfox.com

Craig Gelfound
Partner, LA
213.443.7604
craig.gelfound@arentfox.com

Nicholas J. Nesgos
Partner, BOS
617.973.6168
nicholas.nesgos@arentfox.com

Alexandra M. Romero
Partner, DC
202.828.3469
alexandra.romero@arentfox.com

Valerie C. Samuels
Partner, BOS
617.973.6248
valerie.samuels@arentfox.com

Sara T. Schneider
Partner, LA
415.757.5911
sara.schneider@arentfox.com

John P. Zaimes
Partner, LA
213.443.7543
john.zaimes@arentfox.com

Peter R. Zeidenberg
Partner, DC
202.857.6139
peter.zeidenberg@arentfox.com

Stewart S. Manela
Counsel, DC
202.857.6364
stewart.manela@arentfox.com

Eric Roman
Counsel, NY
212.492.3283
eric.roman@arentfox.com

Roxanne M. Wilson
Counsel, LA
213.443.7515
roxanne.wilson@arentfox.com

Andrew Baskin
Associate, DC
202.350.3772
andrew.baskin@arentfox.com

Jake Christensen
Associate, SF
415.805.7998
jake.christensen@arentfox.com

Genine Cumba
Associate, LA
213.443.7687
genine.cumba@arentfox.com

Nathaniel Hyman
Associate, BOS
617.973.6139
nathaniel.hyman@arentfox.com

Natalie C. Kreeger
Associate, LA
213.443.7693
natalie.kreeger@arentfox.com

Tenese L. Lockhart
Associate, NY
212.457.5598
tenese.lockhart@arentfox.com

Pascal Naples
Associate, DC
212.484.3985
pascal.naples@arentfox.com

Morgan R. Pankow
Associate, DC
202.857.6495
morgan.pankow@arentfox.com

Nadia Patel
Associate, DC
202.775.5716
nadia.patel@arentfox.com

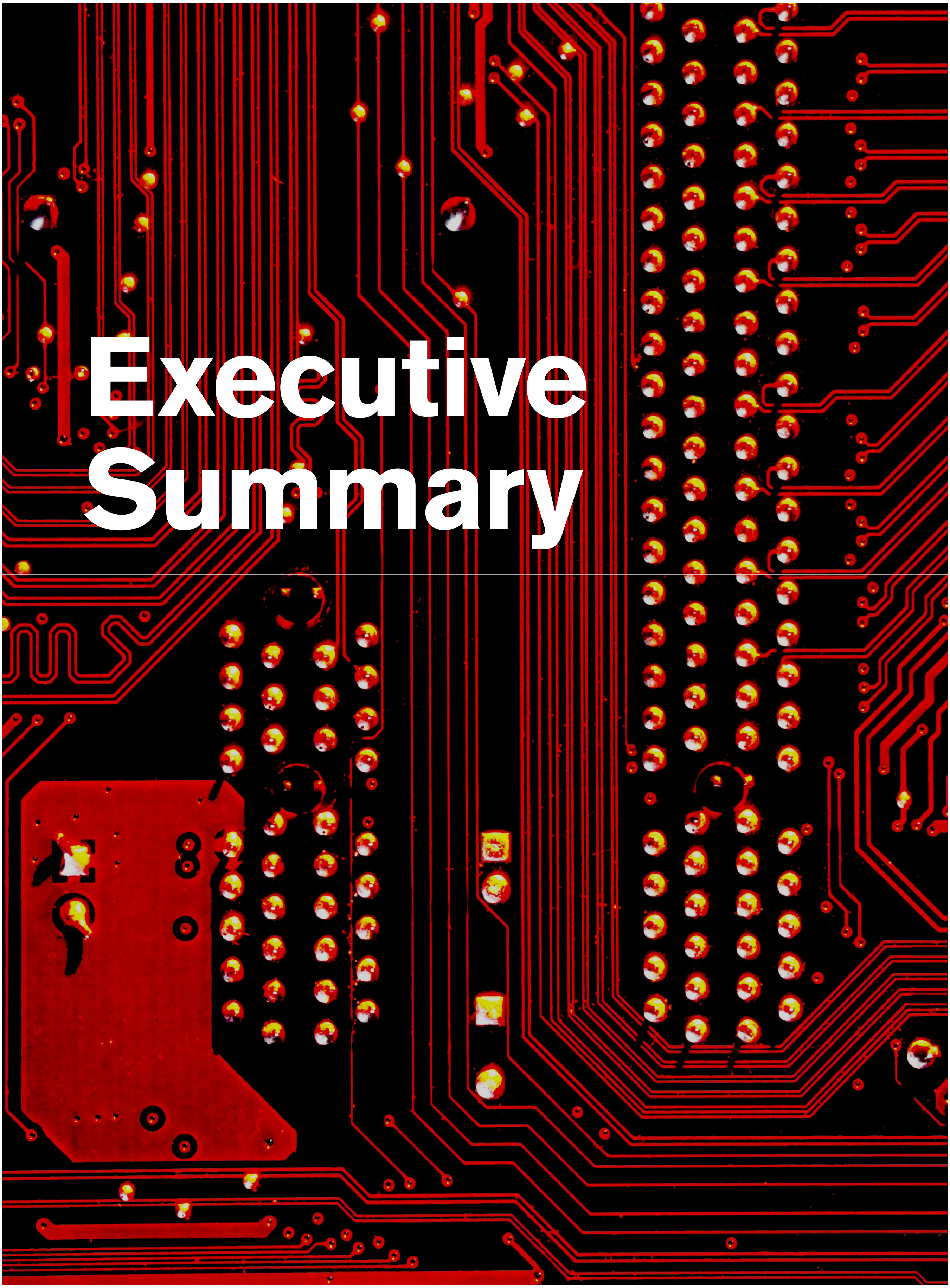
Lauren C. Schaefer
Associate, BOS
617.973.6120
lauren.schaefer@arentfox.com

Jodi Tai
Associate, SF
415.805.7993
jodi.tai@arentfox.com

Anthony J. Orler
Attorney, LA
213. 443.7531
anthony.orler@arentfox.com

Sanum Patel
Law Clerk, NY
212.457.5467
sanum.patel@arentfox.com

Executive Summary



Trade Secret 2021 Whitepaper

In 2021, trade secrets and non-competes continued to garner attention on the national stage. Non-competes were the focus of significant legislative activity at both the federal and local levels, while trade secrets lead to litigation across the country, impacting companies of all sizes in multiple industries. Finally, with the COVID-19 pandemic still impacting the way that business gets done, strategies for trade secret identification and protection evolved to keep up.

The United States Supreme Court Decides Scope of the CFAA

The Supreme Court weighed in on trade secrets in 2021, issuing a much-anticipated opinion on the scope of the Computer Fraud and Abuse Act (the CFAA). The CFAA is a criminal and civil statute that allows for claims against individuals who steal trade secrets information if such access is "without authorization" or "exceeds authorized access." Interpretation of the latter was the subject of a circuit split. The Supreme Court resolved the split when it held in ***Van Buren v. United States*** that an individual "exceeds authorized access" under the CFAA when they access a computer with authorization but then obtain files that are located in areas that are off-limits to them. Importantly, however, an individual does not violate the CFAA when they have improper motives for accessing information that is otherwise available to them or where they intend to misuse information to which they otherwise have authorized access.

The Supreme Court's opinion narrows the application of the CFAA significantly, such that employers and others who hoped to rely on the statute as a tool for further protection of trade secrets and confidential information may no longer do so in a typical case. Trade secret misappropriation claims often arise out of a factual scenario in which an employee accesses information for later unauthorized use, such as competing with his or her former employer. These employees display the same motive as Van Buren – taking advantage of authorized access to a computer to use the information contained therein for unscrupulous purposes.

From a practical perspective, given the Supreme Court's ruling, employers can no longer benefit from the deterrent effect of potential criminal charges under the CFAA in these circumstances. Rather, they will be limited to seeking monetary damages and equitable injunctions under the Defend Trade Secrets Act (DTSA) and state-adopted versions of the Uniform Trade Secrets Act (UTSA), both of which require a heightened standard of proof as compared to the CFAA.

Federal Non-Compete Attention

On the federal level, in February 2021, Congress reintroduced the **Workforce Mobility Act**, which would (i) limit the use of non-competes to dissolution of a partnership or sale of a business, (ii) place enforcement responsibility on the Federal Trade Commission (FTC) and Department of Labor, (iii) create a private right of action, and (iv) impose notice requirements on employers relating to limitations on the use of non-competes. The Workforce Mobility Act remains under committee review.

Other pending federal legislation includes the Freedom to Compete Act (S. 2375), which would amend the Fair Labor Standards Act (FLSA) to ban non-competes for certain nonexempt employees, and the Employment Freedom for All Act (H.R. 5851), which would void any non-compete agreement binding an employee who is terminated for refusing to comply with an employer's COVID-19 mandate.

On July 9, 2021, President Biden issued **Executive Order 14036, "Promoting Competition in the American Economy."** The Executive Order included 72 actions and recommendations to federal agencies designed to review and revise workforce practices. Notable among these directives is Section 5(g), in which the President "encouraged" the FTC to regulate non-compete agreements – an unprecedented use of the agency's rulemaking authority.

In its rollout of the Executive Order, the White House specifically highlighted the seriousness with which it is pursuing changes to non-compete agreements. In a fact sheet provided with the Executive Order, the White House explained that the purpose of Executive Order 14036 was to "[m]ake it easier to change jobs and help raise wages by banning or limiting non-compete agreements and unnecessary, cumbersome occupational licensing requirements that impede economic mobility." The White House described non-competes as "one way companies stifle competition" and stated that "roughly half of private-sector businesses require at least some employees to enter non-compete agreements, affecting some 36 to 60 million workers." Despite these strong policy statements, the Executive Order did not have any immediate impact on non-compete agreements.

On the heels of President Biden's Executive Order, on December 6-7, 2021, the **FTC held a two-day workshop on non-competes entitled "Making Competition Work: Promoting Competition in Labor Markets."** The stated goal of the workshop was to "explore recent developments at the intersection of antitrust and labor, as well as implications for efforts to protect and empower workers through competition enforcement and rulemaking." The workshop ended without any firm guidance, but the discussions underscored the attention that non-competition agreements will continue to garner at the federal level.

State Level Non-Compete Attention

Non-competes also continued to be the subject of significant legislative activity at the state level in 2021. State legislation to date has focused on notice requirements, time periods for restrictions, and the pool of employees who may be bound, often limiting the pool based on salary or FLSA exempt status.

In the **District of Columbia**, the Council of the District of Columbia passed the Ban on Non-Compete Agreements Amendment Act of 2020 in December 2020. The Act would make the District of Columbia one of the few jurisdictions in the United States with a near-total prohibition on the use of employment non-competes. The Act's applicability date – the date on which employers are subject to its terms – has been deferred to April 1, 2022, and DC council members may still seek to amend the Act prior to that time.

In **Illinois**, the Freedom to Work Act was amended on August 13, 2021, limiting the circumstances in which restrictive covenants will be enforced in the state. In particular, non-competes will not be enforced against employees who earn $75,00 or less per year, and non-solicitation provisions for both employees and customers will not be enforced against employees who earn less than $45,000 per year. Both thresholds will be increased every five years, by $5,000 and $2,500, respectively. In determining whether a provision is tailored to protect a legitimate business interest of an employer, a court will consider (1) the employee's exposure to the employer's customer relationships or other employees; (2) the near permanence of customer relationships; (3) the employee's acquisition, use, or knowledge of confidential information through the employee's employment; (4) the time restrictions, the place restrictions; and (5) the scope of the activity restrictions.

Effective October 1, 2021, **Nevada's** AB 47 went into effect, invalidating non-compete agreements with any employee who is paid solely on an hourly wage basis, exclusive of any tips or gratuities. AB 47 also prohibits an employer from bringing an action to restrict an employee from providing services to a former customer or client of the employer if the employee did not solicit the former customer, the customer voluntarily chose to leave, and the former employee is otherwise complying with the restrictions.

Oregon's non-compete statute was also amended (again) on May 21, 2021. The amendment decreased the maximum duration on a non-compete from 18 months to 12 months and created an income threshold of $100,533, to be adjusted annually for inflation.

Criminal Implications

On December 9, 2021, the **Department of Justice** announced once again that it was pursuing criminal charges in connection with the use of no-poach agreements. In 2020, the DOJ issued the first indictment of its kind following the issuance of the 2016 Antitrust Guidance for Human Resource Professionals. Now, in 2021, the DOJ is seeking criminal charges against a major aerospace engineering company executive for conspiracy in restraint of trade, alleging that the executive engaged "in a long-running conspiracy with managers and executives of several outsource engineering suppliers to restrict the hiring and recruiting of engineers and other skilled laborers among their respective companies."

On March 1, 2022, SB 21-271 will take effect in **Colorado**, exposing employers to increased potential criminal penalties for violations of Colorado's anti-non-compete statute. In particular, violators will be subject to a Class 2 Misdemeanor, carrying potential fines of up to $750 and/or imprisonment of up to 120 days. This expansion of criminal penalties raises multiple concerns for employers: (1) the Colorado non-compete statute's broad (and as yet uninterpreted) prohibition could subject employers to substantial fines and/or imprisonment for attempts either to enforce restrictive covenants or to seek injunctive relief for misappropriation; (2) employers adopting a broader definition of executives, management personnel, and employees who constitute their staff, than intended by the statute could also subject employers to the same liability; and (3) the statute could be interpreted so that merely entering a void restrictive covenant amounts to a violation of the statute and, therefore, triggers criminal liability. Employers should be wary of such an expansive interpretation, as the statute appears only to govern the validity of the covenants, in and of themselves, and not the conduct of those who enter them.

The Ongoing Impact of COVID-19

The impact of the COVID-19 pandemic also continued to affect how companies create, identify, protect, and litigate their trade secrets.

The **continued remote and hybrid working environment** has challenged the ability of employers to protect their confidential and trade secret information. Home offices make it more difficult for employers to control access to the information, for example, through inadvertent public disclosure to family members, roommates, or visitors. To limit the likelihood of loss, employers should consider the use of VPN connections and encrypted systems and should regularly audit which employees truly need access to trade secret information. The strategic use of restrictive covenants, such as non-disclosure and non-compete obligations, may be important tools to protect information, but employers must continually reassess their enforceability in an ever-changing state and federal regulatory landscape.

Moreover, the **high levels of employee turnover** during the COVID-19 pandemic offer abundant opportunities for misappropriation. Without the ability to physically walk an employee out of the office, employers should consider alternative safeguards. Policies such as limitations on the use of external storage devices, personal printers, and personal email accounts can assist in corralling information and ensuring its proper return upon termination. There must be a clearly defined approach to locking down and securing confidential information before it is transferred by a departing employee.

Trade secret litigation also remained robust throughout 2021, with many cases dealing directly or indirectly with the impacts of the COVID-19 pandemic. For example, in ***Medcor, Inc. v. Garcia***, No. 21 CV 2164, 2022 WL 124163, at *1 (N.D. Ill. Jan. 13, 2022), plaintiff Medcor, Inc. alleged that certain former employees misappropriated trade secrets relating to "a screening system and testing protocol based on Centers for Disease Control and Prevention guidance" developed by Medcor in response to the COVID-19 pandemic. In ***Westrock Co. & Victory Packaging, LP v. Dillon***, No. 21-CV-05388, 2021 WL 6064038, at *11 (N.D. Ill. Dec. 22, 2021), Defendants argued that the trade secret information that they had allegedly misappropriated no longer had any value because the pricing information had been under such extreme volatility as a result of the COVID-19 pandemic as to be rendered useless. And, in ***Just Funky, LLC v. Boom Trendz, LLC***, No. 5:21-CV-1127, 2021 WL 5494814, at *9 (N.D. Ohio Nov. 23, 2021), the fundamental jurisdictional analysis was impacted as the court held that any burden on the defendant would be slight because "the COVID-19 global pandemic greatly expanded the nature of court proceedings utilizing remote solutions."

We expect the impacts of the COVID-19 pandemic to be felt in the trade secrets litigation space for many years to come.

2022 and Beyond

As we make our way into 2022, the national attention on non-competes appears here to stay. Companies should focus their programs on ensuring compliance and maximizing enforceability with respect to the employees who may cause the most competitive harm.

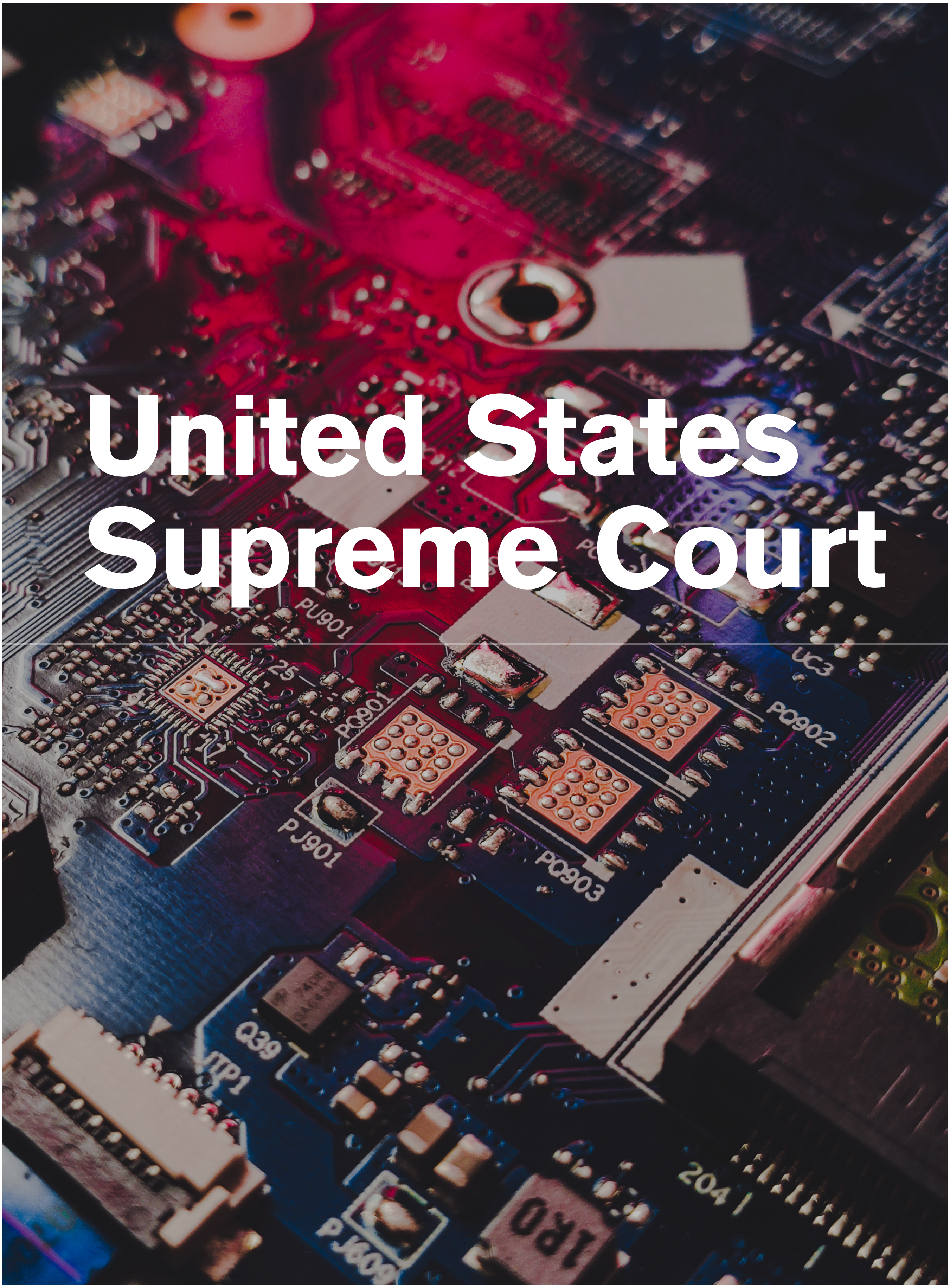
Trade secrets will also continue to be a source of competitive value for companies in the new year. Companies should continue to self-audit and catalog their valuable trade secret information and ensure that the appropriate safeguards are in place to prevent the disclosure of information in the office as well as in a remote environment.

Linda M. Jackson
Partner, DC
202.775.5785
linda.jackson@arentfox.com

Alexander H. Spiegler
Partner, NY
212.457.5454
alexander.spiegler@arentfox.com

Lauren C. Schaefer
Associate, BOS
617.973.6120
lauren.schaefer@arentfox.com

United States Supreme Court



Van Buren v. United States, 141 S. Ct. 1648 (2021).

Industry

Law Enforcement/Technology/Computers

Takeaway

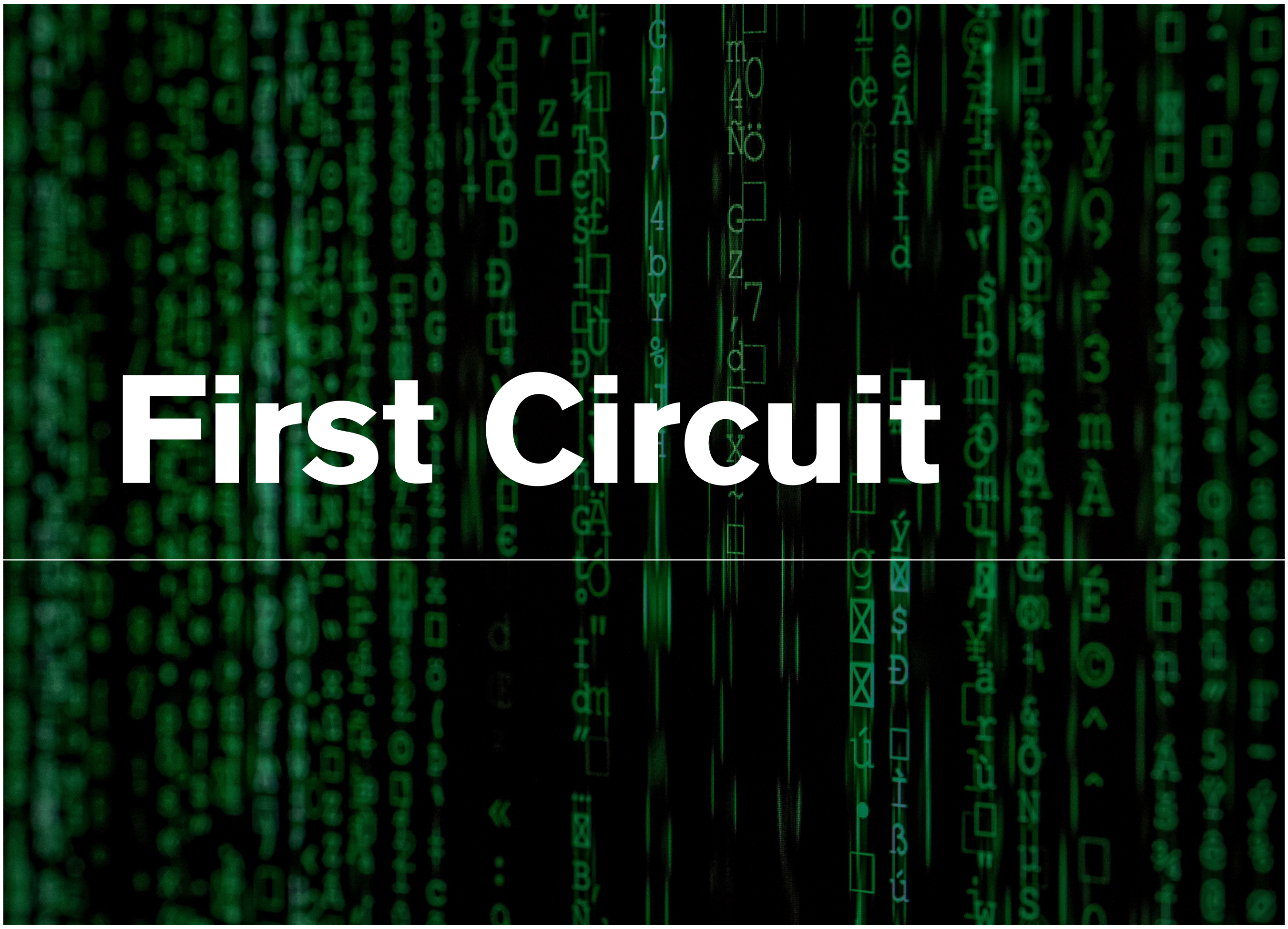
An individual "exceeds authorized access" for purposes of the Computer Fraud and Abuse Act of 1986 (CFAA) when he or she accesses a computer with authorization but then obtains information located in particular areas of the computer – such as files, folders, or databases – that are otherwise off-limits to him or her. On the other hand, accessing computer files, one has regular and proper access to—even where access is done for improper purposes—does not constitute a violation of the CFAA.

Details

— **Procedural Posture:** Following arrest for felony violation of the CFAA, Van Buren was convicted and sentenced to 18 months in prison. The 11th Circuit affirmed, and Van Buren appealed.

— **Factual Background:** Former Georgia police sergeant Nathan Van Buren used his patrol-car computer to access a law enforcement database to retrieve information about a particular license plate number for non-law-enforcement purposes. Van Buren's conduct was uncovered during an FBI sting operation, and he was charged with felony violation of the CFAA.

— **Court's Decision:** The Supreme Court's analysis turned on its interpretation of two clauses: whether Van Buren was "not entitled so to obtain" the materials he sought and whether Van Buren's access "exceeds authorized access." Van Buren argued that the first phrase asked the trier of fact to determine whether the individual seeks to acquire information he is not allowed to obtain by using a computer that he is authorized to access. The Government disagreed, arguing that the use of "so" references information one is not allowed to obtain in the particular manner or circumstances in which one obtained it. With respect to the "exceeds authorized access" term, the Government argued that the phrase should be given its ordinary meaning and should thus cover any access not otherwise allowed. Van Buren argued that the phrase should not be given its ordinary meaning but should be instead interpreted as the CFAA defines the term; thus, "exceeding authorized access" should refer to entering a part of a computer system to which a computer user lacks access privileges. The Supreme Court sided with Van Buren on both points, concluding that the CFAA only penalizes access that exceeded a party's access privileges. Because Van Buren had not exceeded his access privileges, he did not violate the CFAA.



First Circuit

Massachusetts

***KPM Analytics N. Am. Corp. v. Blue Sun Sci., LLC*, No. 4:21-CV-10572-TSH, 2021 WL 2982866 (D. Mass. July 15, 2021).**

Industry

Manufacturing

Takeaway

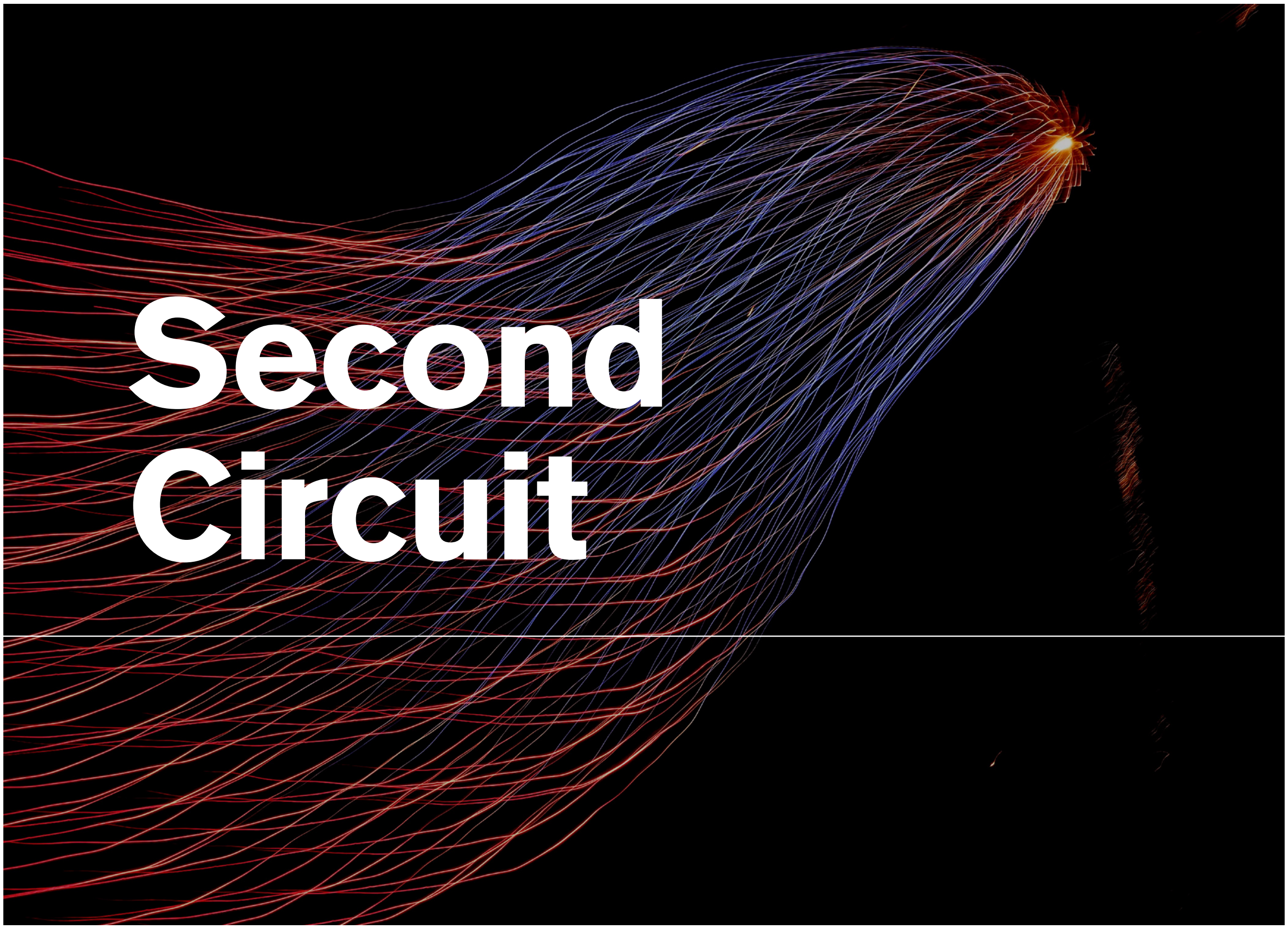
Under the Massachusetts Noncompetition Agreement Act (MNAA), mere employment with the company, even at the beginning of the employment relationship, will be insufficient to satisfy the requirement that the agreement be supported by some mutually-agreed upon consideration.

Details

- **Procedural Posture:** Defendants moved to dismiss KPM's complaint for failure to state a claim. Among other things, Defendants argued the one of the applicable employee noncompetition agreements was unenforceable because the consideration was insufficient under the MNAA.

- **Factual Background:** In early 2021, KPM, a manufacturer of instruments that measure substances in consumer products, began to suspect that Blue Sun, a direct competitor, had persuaded seven former KPM employees to misappropriate KPM's trade secrets and confidential information in violation of their non-disclosure and noncompetition agreements. The one agreement, which was subject to the MNAA, identified "my employment with the company" as the sole consideration in exchange for the non-compete.

— **Court's Decision:** The 2018 MNAA requires that all noncompetition agreements be supported by "a garden leave clause or other mutually-agreed upon consideration." Employment alone, even in the event of new employment, is not sufficient to meet this requirement.



Second Circuit

***Mason v. Amtrust Fin. Servs. Inc.*, 949 Fed.Appx. 447 (2d Cir. 2021).**

Industry

Financial Services/Insurance

Takeaway

Where an individual seeks to bring materials to a new employer that they believe constitutes trade secrets (and in which the employee asserts a proprietary interest), the individual should work to create an explicit arrangement with the employer highlighting the proprietary and personal nature of ownership and limiting use and access via, *inter alia*, a non-disclosure or licensing agreement or an explicit contract term in the employee's employment contract.

Details

— **Procedural Posture:** Plaintiff Mason filed a complaint and sought a preliminary injunction under state law and the Defend Trade Secrets Act, seeking to bar his former employer from continued use of a pricing model developed by Plaintiff before his employment with that former employer. The U.S. District Court for the Southern District of New York denied Plaintiff's request for a preliminary injunction and dismissed in part Plaintiff's amended complaint, and the Second Circuit affirmed the district court's ruling.

— **Factual Background:** Eugene Mason, the plaintiff-appellant, formerly worked at AmTrust Financial Services, Inc. Prior to working for AmTrust, Mason collected, compiled, and analyzed data relating to the pricing of professional liability insurance for various classes and sub-lines of professional service firms. These materials were compiled into a multi-tab spreadsheet, referred to in the decision as the "Pricing Model." Mason parlayed the use of his Pricing Model into employment with AmTrust, but the parties did not sign a formal licensing agreement regarding the use of the Pricing Model. Mason worked for AmTrust for approximately 6 years and used the Pricing Model during that time period. Mason contended that he attempted to maintain the Pricing Model as personal and proprietary to him, insisting, *inter alia*, that third parties not have access to it, that it not be stored on AmTrust's central servers, and referring to it in personal and proprietary terms. The court noted, however, that during Mason's years at AmTrust, other AmTrust employees had access to the Pricing Model and were not restricted from using it. In his amended complaint, Mason alleged that the Pricing Model constituted a trade secret and that because Mason had departed AmTrust, the company should be barred from using the Pricing Model without a licensing agreement with Mason.

— **Court's Decision:** The court noted that under state and federal law, "the owner of the trade secret must take 'reasonable measures' to keep the proprietary information secret." The court agreed with the lower court that while Mason had taken steps to protect the Pricing Model from third parties, he had not taken "reasonable measures" to keep the Pricing Model from his fellow employees at AmTrust by, for instance, restricting access to the Pricing Model internally or executing a non-disclosure or licensing agreement. As a result, AmTrust could not be found liable for misappropriation of trade secrets because Mason had not taken sufficient steps to limit access within AmTrust to the Pricing Model.

Connecticut

***Allco Renewable Energy Ltd. v. Freedom of Info. Comm'n*, 257 A.3d 324 (Conn. Ct. App. 2021).**

Industry

Energy/Public Agency

Takeaway

Work product created by state agencies to review and rank competitive bid proposals qualifies as a confidential trade secret and is exempt from disclosure.

Details

— **Procedural Posture:** On Appeal; Review of Administrative Decision.

— **Factual Background:** The Connecticut Department of Energy and Environmental Protection (Department), in coordination with Massachusetts and Rhode Island, issued an RFP for large-scale clean energy contracts. To evaluate the responses, the three states formed a team that included independent consultants, one of which applied a market simulation model to evaluate the costs and benefits of all bids. The RFP stated that the Department would take steps to protect proposers' confidential information. The plaintiff solar energy company submitted an unsuccessful proposal and filed a freedom of information request, seeking, in part, the disclosure of certain of the successful bidders' RFP responses. The Department initially declined to provide the requested information because it was exempt from disclosure. It eventually provided unredacted documents that did not fall within an exemption. The plaintiff subsequently narrowed the scope of its request to the market simulation model —essentially an answer key—that the Department used to evaluate RFP responses. The Department refused to produce the answer key, contending that it qualified as a trade secret. The Department argued that it derived economic value from non-disclosure of the answer key and had taken reasonable steps to protect its secrecy. Following an appeal, the state Freedom of Information Commission upheld the Department's decision. The Superior Court similarly affirmed the Commission's decision.

— **Court's Decision:** The appeals court found that substantial evidence supported the Commission's finding that the Department's answer key created to analyze RFP responses required confidentiality and was a trade secret exempt from disclosure. Further, as a matter of first impression, the court found that because the proposers and Department mutually intended to submit and collect confidential information, the information contained in bids (and therefore the answer key) was "given in confidence" and exempt from public disclosure under the state statute. The court further rejected the appellants' argument that the answer key was not a trade secret because the Department did not engage in trade. Even though the Department has no direct competitors, it engaged in commerce by seeking bids for clean energy services as part of its statutory duty to provide value to energy ratepayers.

New York

***Mtivity, Inc. v. Office Depot, Inc.*, 525 F. Supp. 3d 433 (E.D.N.Y. 2021).**

Industry

Technology

Takeaway

Court confirmed that it will not apply a heightened pleading standard to Defend Trade Secret Act (DTSA) claims, particularly with respect to describing the trade secret at issue. When pleading the misappropriation of a trade secret, the plaintiff need only plead with "sufficient specificity to inform [defendant] of what [it] has misappropriated."

Details

— **Procedural Posture:** Motion to Dismiss for Failure to State a Claim.

— **Factual Background:** Plaintiff Mtivity, Inc. and Defendant Office Depot, Inc. entered into a five-year licensing agreement that gave Office Depot a license to use Mtivity's proprietary marketing software and access to support and hosting services. Office Depot later entered a relationship with a new service provider, eLynxx Solutions. Mtivity alleged that Office Depot misappropriated and improperly disclosed the details of Mtivity's proprietary software to eLynxx in violation of the DTSA. Mtivity also sought damages for breach of contract and *quantum meruit* recovery.

— **Court's Decision:** On its motion to dismiss, Office Depot argued that Mtivity had failed to state a DTSA claim because Mtivity had not described in sufficient detail the specific trade secret information that had been misappropriated. Office Depot also argued that Mtivity's software was not a trade secret and that Mtivity failed to allege the proper type of damages.

The court rejected Office Depot's attempts to impose a heightened pleading standard on Mtivity's DTSA claim. The court stated that it "must allow Mtivity's claim to proceed so long as it is 'pled with sufficient specificity to inform [Office Depot] of what [it] has misappropriated.'" The court noted that several district courts had rejected similar attempts to impose a heightened pleading standard to the DTSA. In its complaint, Mtivity had made clear that it was the "structural design of [its] software program" that had been misappropriated. This was sufficient.

The court also concluded that Mtivity had properly alleged that the software constituted a trade secret pursuant to the DTSA because Mtivity pled that the company spent $18 million and 18 years of labor on research and development. The court emphasized that the parties' agreement included a lengthy confidentiality clause that survived termination, suggesting that Mtivity took reasonable measures to protect the secrecy of its information.

Regarding damages, Mtivity sought the costs to create the application, the costs for data migration, and employee costs. The court concluded that the DTSA does not expressly provide for such damages but suggested that Mtivity could amend its complaint to allege how the improper disclosure caused Mtivity to incur damages recoverable under the statute.

***Pike Co., Inc. v. Universal Concrete Prod., Inc.*, 524 F. Supp. 3d 164 (W.D.N.Y. 2021).**

Industry

Construction

Takeaway

Subcontractor's failure to prevent general contractor's employee from taking photographs of subcontractor's facility, and subsequent failure to demand destruction of such photographs after becoming aware of disclosure to a third party, eliminates any trade secret protection for such photographs.

Details

- **Procedural Posture:** Motion for summary judgment sought against misappropriation of trade secrets claim.

- **Factual Background:** The plaintiff, a general contractor for a college dormitory building construction project, sued the defendant, a subcontractor charged with installing precast concrete wall panels with brick and stone veneer for part of the project, alleging breach of contract, among other claims. The subcontractor counterclaimed for, among other things, misappropriation of trade secrets. Specifically, the subcontractor alleged that the general contractor sent an employee to observe the subcontractor's facility, take photographs of the facility, and report back on the status and quality of the panel production. The general contractor then hired a different subcontractor to create the panels for a different building as part of the same contract and shared the employee's photos with that second subcontractor. General contractor moved for summary judgment.

- **Court's Decision:** The photographs did not constitute a trade secret because the subcontractor did not take sufficient steps to maintain the secrecy of the photographs. In particular, the subcontractor took no steps to restrict the general contractor's employee's access or use of the photographs and even thanked the employee for forwarding the photographs he had taken during his visits (in an email that was copied to the second subcontractor). In addition, upon learning the photos had been shared with the second subcontractor, the subcontractor in question did not ask the other to destroy the photos. Though the subcontractor argued it did not consent to the disclosure of the photographs to the second subcontractor, the relevant point was that the subcontractor failed to maintain the secrecy of the facility in the first place.

***Medcenter Holdings Inc. v. WebMD Health Corp.*, No. 1:20-CV-00053, 2021 WL 1178129 (S.D.N.Y. Mar. 29, 2021).**

Industry

Healthcare

Takeaway

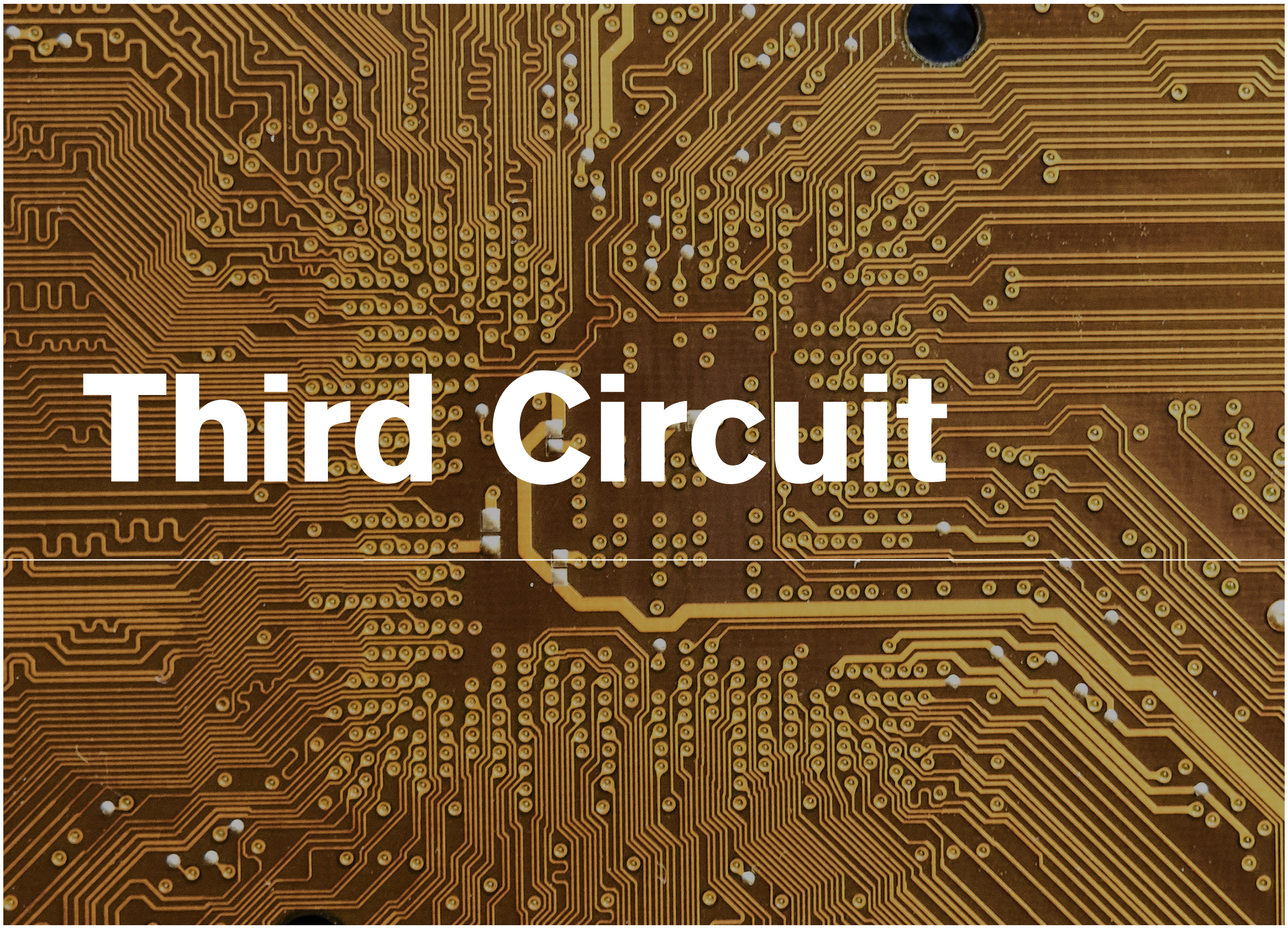
While identities of employees might not be confidential, the use of information pursuant to an NDA about a company's operations used to target employees for poaching may constitute breach of the NDA.

Details

- **Procedural Posture:** Motion to dismiss the First Amended Complaint (FAC).

- **Factual Background:** During due diligence of a potential acquisition of Medcenter's Latin American subsidiaries by WebMD, WebMD was shown the structure of Medcenter's proprietary databases but was not permitted to see the actual data. A Medcenter employee, who had a database access key, resigned abruptly and updated her LinkedIn profile to show she worked at a WebMD entity. Medcenter brought suit alleging they found evidence that their former employee stole substantial amounts of confidential Medcenter data and conspired to use that data for WebMD's benefit and that WebMD violated its NDA by targeting employees to poach. WebMD sought to dismiss the complaint, arguing that the Medcenter's trade secret claims were untimely, that neither the DTSA nor New York common law applied because the misappropriation occurred in Argentina, and that the contract claim failed to allege a breach or damages.

- **Court's Decision:** The court denied dismissal based on WebMD's timeliness argument because it could not conclude that the FAC clearly shows Medcenter should have discovered the misappropriation by the exercise of reasonable diligence more than three years prior to the filing. The court denied dismissal based on WebMD's argument that the DTSA does not apply extraterritorially because Medcenter sufficiently alleged that acts in furtherance of the misappropriation were committed in the United States. On the breach of contract claim, the court clarified that the alleged wrong is not the non-confidential identities of Medcenter's employees, but rather the use of information acquired pursuant to the NDA about Medcenter's operations to target employees for poaching, which is a question of fact to be later determined.



***Oakwood Labs, LLC v. Thanoo*, 999 F.3d 892 (3d. Cir. 2021)**.

Industry

Technology/Pharmaceuticals

Takeaway

The Court of Appeals for the Third Circuit interpreted "use" of a trade secret broadly under the DTSA and UTSA, and further indicated that the pleading standard under the UTSA and DTSA does not require direct proof of misappropriation; rather, a claim of misappropriation can rely on circumstantial evidence and reasonable inferences derived therefrom. Finally, the Third Circuit confirmed that misappropriation itself is a cognizable harm, and no further harm (e.g., competitive product launch) need be showed by a plaintiff at the motion to dismiss stage.

Details

— **Procedural Posture:** Appeal from the district court's order granting dismissal as to Oakwood's third amended complaint.

— **Factual Background:** Plaintiff Oakwood Labs spent many years developing microsphere process technology, and its research on this topic was led by defendant Dr. Thanoo, while employed by Oakwood. Oakwood took reasonable steps to protect this research from disclosure, including by requiring non-disclosure agreements with its vendors, suppliers, and business partners prior to sharing information, as well as advising its employees that such information must be held confidential, password protecting electronically stored information, and reasonably controlling access to such information. Defendant Aurobindo initially sought out Oakwood for a business arrangement related to Oakwood's microsphere process technology, but ultimately abandoned those discussions after due diligence. About six months after abandoning talks with Oakwood, Aurobindo hired Thanoo. Within months of Thanoo's hire, Aurobindo announced a new, highly developed microsphere process product similar to the one under development by Oakwood. Oakwood filed suit, alleging that Dr. Thanoo and Aurobindo had misappropriated its trade secrets related to Oakwood's efforts to develop the microsphere process technology.

- **Court's Decision:** The Court of Appeals disagreed with the district court's findings that Oakwood's complaint should be dismissed (three times). First, the Court of Appeals concluded that Oakwood had sufficiently identified the trade secrets it alleged were misappropriated by, for example, identifying and providing precise examples and documents relating to the microsphere project. Next, the Court concluded that plaintiffs had sufficiently alleged that the defendants misappropriated their trade secrets. Specifically, the district court's ruling would (1) exclude a broad scope of activity that amounts to misappropriation under the DTSA, including "use" of a trade secret, and (2) effectively create a heightened (and improper) level of pleading about which trade secrets were used, how they were used, and whether they needed to be used for Aurobindo to develop a product.

Pennsylvania

Le Tote Inc. v. Urb. Outfitters, Inc., No. CV 20-3009, 2021 WL 2588958 (E.D. Pa. June 24, 2021).

Industry

Fashion and Retail

Takeaway

The pleading standard for trade secret misappropriation is not onerous. Plaintiffs need not describe the trade secrets with particularity and need not identify specifically how a trade secret was used or disclosed – an interference of misappropriation will suffice. Further, Plaintiffs may rely on general allegations that they took measures to protect the trade secrets.

Details

- **Procedural Posture:** Le Tote filled suit against Urban Outfitters alleging that it used information gleaned during potential investment discussion to instead develop a competing product. Urban Outfitters moved to dismiss the complaint.
- **Factual Background:** Le Tote is a fashion rental by mail subscription service, which relies on custom systems to ensure quality recommendations to clients, to manage the flow of incoming and outgoing shipments, and to estimate delivery costs. In 2018, Urban Outfitters entered into a NDA with Le Tote in connection with a potential investment or acquisition by Urban Outfitters. In connection with these discussions, Le Tote shared information concerning its logistics and infrastructure systems, its use of inventory and customer feedback, its product roadmap, and consumer feedback and satisfaction data. The proposed acquisition was abandoned in 2018. One month later, Urban Outfitters announced the launch of a competitive fashion subscription service, Nuuly.
- **Court's Decision:** In denying the Motion to Dismiss, the Court noted that Le Tote had properly pled a claim for misappropriation under both the DTSA and the Pennsylvania Uniform Trade Secrets Act. In particular, the Court joined a "robust consensus of district courts across the country" in holding that an allegation of misappropriation at the motion to dismiss stage need not describe trade secrets with particularity, and also found that basic allegations concerning use of NDA and restrictions on access were sufficient to demonstrate that the information was adequately protected as a trade secret. Moreover, the Court found that where a complaint alleges a sequence of facts that could leave to an inference of misappropriation, the required pleading standard has been met. In this case, Le Tote sufficiently plead that Urban Outfitters has access to competitive information and later created a near-identical competing product.

Pittsburgh Logistics Sys., Inc. v. Beemac Trucking, LLC, 249 A.3d 918 (Pa. 2021).

Industry

Logistics/Transportation

Takeaway

Agreement between business entities that included no-hire / “no poach” provisions in an attempt to circumvent the unenforceability of a failed modification to an employer-employee agreement (for lack of additional consideration) was void as against public policy and therefore unenforceable under Pennsylvania law.

Details

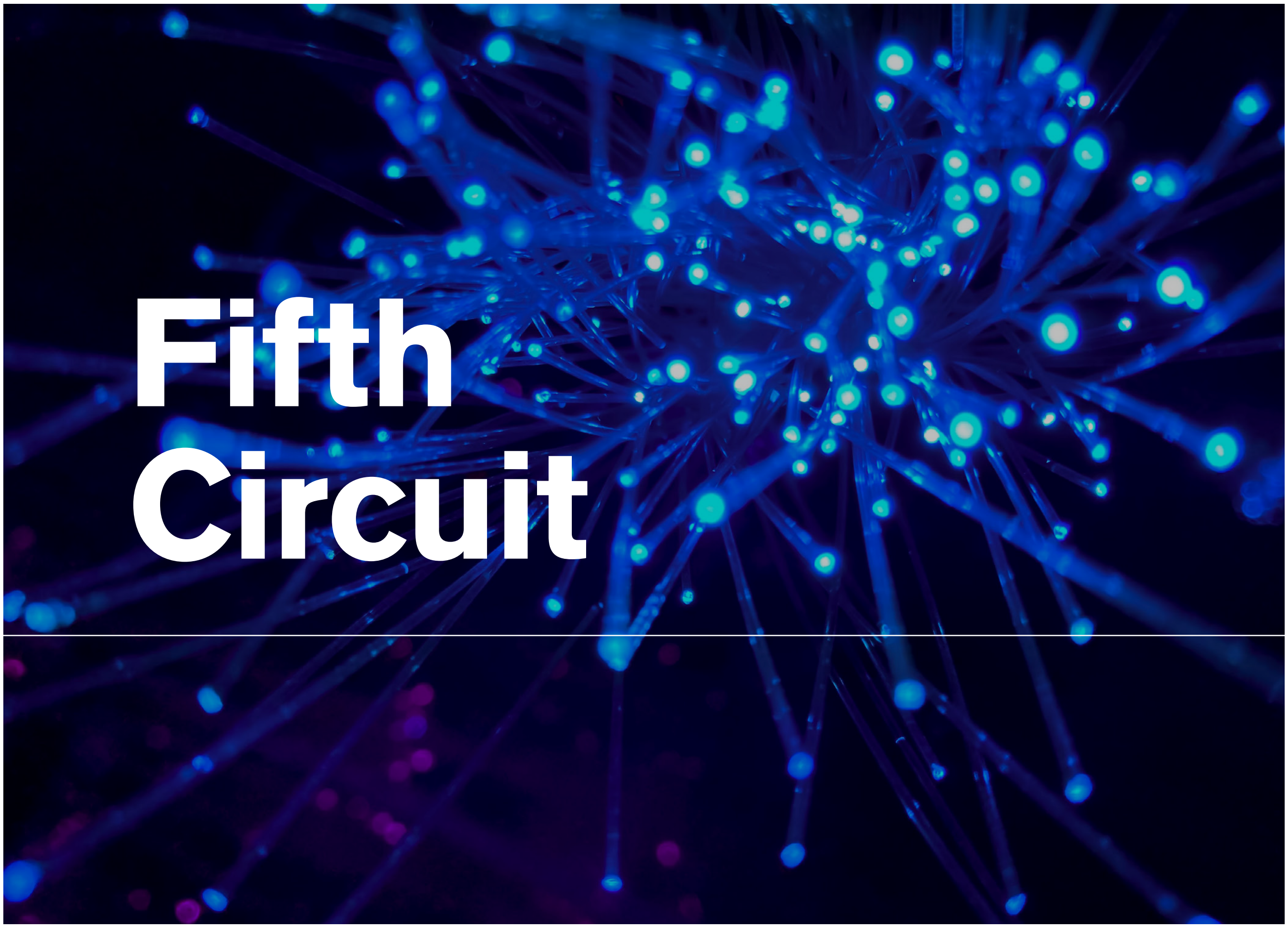
— **Procedural Posture:** On Appeal; Motion for Preliminary Injunction.

— **Factual Background:** Logistics provider contracted with a trucking company/motor carrier to transport its customers’ freight. The parties entered into a one-year Motor Carriage Services Contract that included both a one-year non-solicitation provision for the logistic provider’s clients during the contract’s term and a two-year no-hire provision for the logistic provider’s employees enforceable after the contract ended. The contract renewed automatically until either party terminated it. While the contract was in force, the shipping company hired four of the logistics provider’s employees.

The logistics provider sued the trucking company (for breach of contract, tortious interference with contract, violation of the Pennsylvania Uniform Trade Secrets Act, and civil conspiracy) and its former employees (for breach of contract). The logistics provider also sought and obtained a temporary restraining order against the trucking company and the four former employees, preventing the trucking company’s employment of the former employees and restricting both from soliciting the logistics provider’s customers. At a consolidated hearing, the trial court determined that the portion of the logistics provider’s non-compete clause prohibiting the former employees from soliciting its clients was reasonable, though the worldwide scope of the prohibition was not. The trial court vacated the injunction preventing the former employees’ employment by the trucking company because the no-hire agreement was solely between the logistics provider and the trucking company. The trial court held that such a no-hire agreement was void as against public policy since it effectively imposed a non-compete agreement upon the employee without the employee’s consent.

The appellate court, sitting *en banc*, affirmed the trial court’s decision, noting that there was no proof the employees knew of the no-hire provision. Further, allowing such no-hire provisions in agreements between competitors would mean that “each [motor carriage service contract] with a new carrier[ ] results in a new restriction upon current employees” without any additional consideration to support the new restriction, making such provisions unenforceable.

— **Court’s Decision:** In a matter of first impression, the Pennsylvania Supreme Court, found that the no-hire provision was an unreasonable and unlawful restraint on trade. It held that the parties’ agreement limited competition by restricting the employment mobility of the logistics provider’s employees. The no-hire provision was more restrictive than necessary to protect the logistics provider’s interests because it precluded the carrier from hiring any of the logistic provider’s employees regardless of whether the employee had ever worked with the carrier during the contract term. The court held that the provision likely would cause harm to the public by undermining free competition in the relevant labor market.



Fifth Circuit

***HouseCanary, Inc. v. Title Source, Inc.*, 622 S.W.3d 254 (Tex. 2021).**

Industry

Real Estate/Software

Takeaway

Attorneys handling trade secrets misappropriation cases should be wary of seemingly generous enforcement language like that included in the Texas Uniform Trade Secrets Statute, and remain cognizant of all applicable rules and requirements.

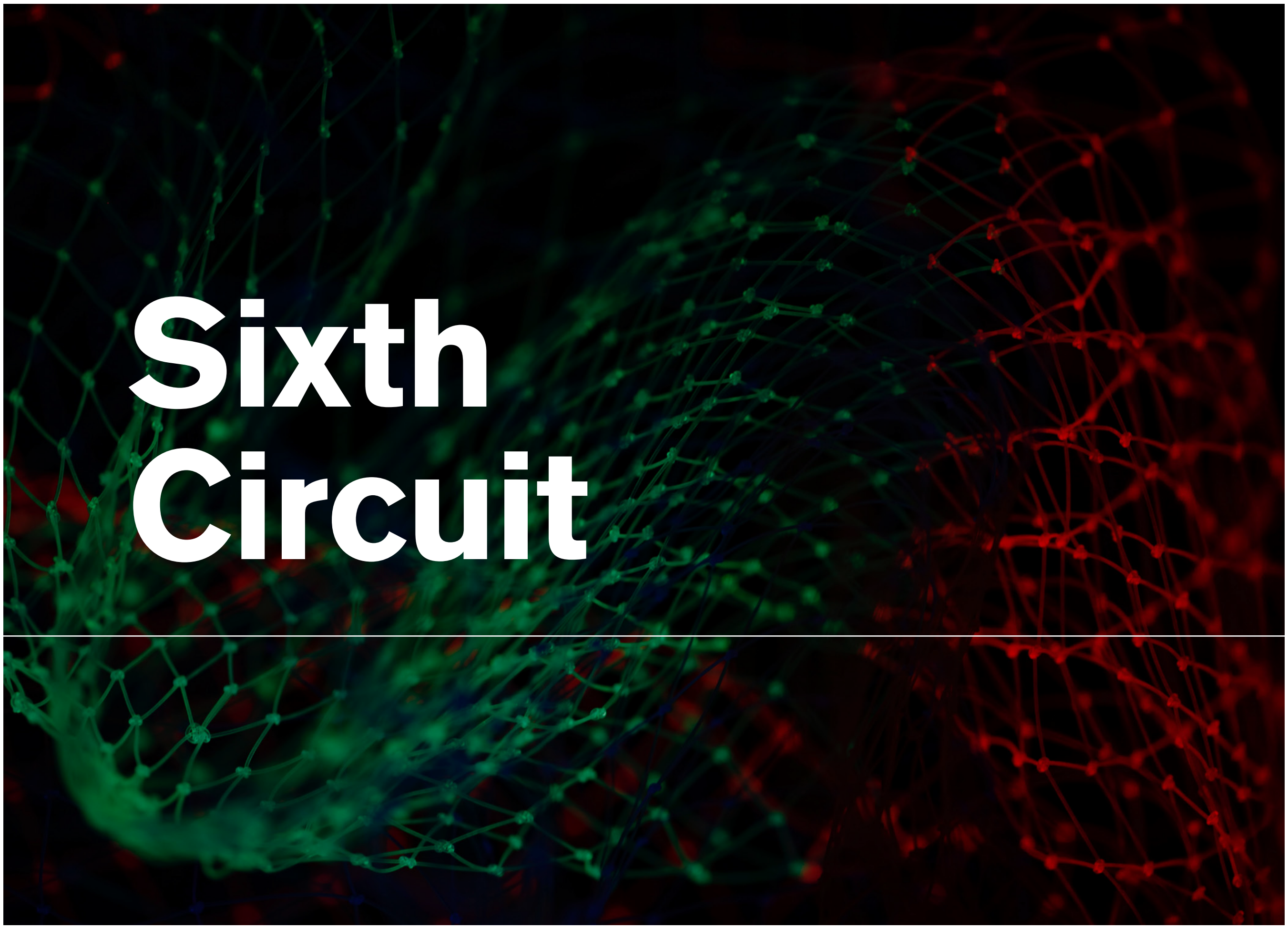
Details

- **Procedural Posture:** Following a jury trial, prevailing party on a trade secret misappropriation claim moved trial court to seal a set of exhibits which it argued contained trade secret information. The trial court granted the motion, and the non-prevailing party appealed. The intermediate appellate court reversed the trial court, finding an abuse of discretion, and the prevailing party petitioned to the Supreme Court of Texas.

- **Factual Background:** HouseCanary makes technology generating appraisal information for residential real estate, and licensed its program to Title Source for practical use. Title Source sued HouseCanary for breach of contract on the grounds that the program did not deliver as promised. HouseCanary counterclaimed with a claim for misappropriation of trade secrets, asserting that Title Source had used the program to create derivative versions in violation of the licensing agreement. A jury trial found in favor of HouseCanary, which later filed a motion to seal trial exhibits it argued contained the trade secrets. The court granted the motion to seal, and Title Source appealed.

- **Court's Decision:** The trial court abused its discretion in ordering that the trade secret exhibits be sealed, because HouseCanary did not comply with the provisions of Rule 76a, which governs the sealing of court records. Although the Texas Uniform Trade Secrets Act ("TUTSA") provides that courts should presume that trade secret information should be sealed, that substantive displacement of the language of the rule did not abrogate the procedures and burdens contained within Rule 76a. That was so even though TUTSA expressly stated that it controlled with regard to any conflict with the Texas Rules of Civil Procedure. Because TUTSA contained no procedural mechanisms, only substantive presumptions and a lenient standard of proof, TUTSA did not "provide an independent path to sealing court records," as HouseCanary had asserted. Notably, a concurring justice indicated that the trial court erred in retroactively sealing the exhibits because the exhibits had already been publicly disclosed when HouseCanary used them in open court without first obtaining an order to preserve their secrecy. The Supreme Court remanded the case to the trial court for a more fulsome analysis of whether the records should be sealed pursuant to both TUTSA and Rule 76a.

Sixth Circuit



***AtriCure, Inc. v. Jian Meng*, 842 Fed.Appx. 974 (6th Cir. 2021).**

Industry

Medical Devices/Technology

Takeaway

OUTSA claims can have international reach where a court finds that enforcement does not offend international comity and comports with the equities of the case.

Details

— **Procedural Posture:** The U.S. District Court for the Southern District of Ohio granted AtriCure a preliminary injunction based on AtriCure's trade-secret claim, enjoining Dr. Meng and his companies from marketing, producing, and selling any products substantially similar to AtriCure's. Dr. Meng appealed, arguing that AtriCure did not adequately prove Dr. Meng received and used any information and that the injunction should not reach into China. The Court of Appeals affirmed the grant of a preliminary injunction.

— **Factual Background:** AtriCure sued its long-time Chinese distributor, Dr. Jian Meng, after concluding that Dr. Meng used confidential information to copy the entire line of products Dr. Meng distributed for AtriCure in China.

— **Court's Decision:** The Court of Appeals first held that the district court had not erred in finding that AtriCure had alleged the existence of a trade secret with a sufficient degree of specificity. Noting that "the specificity bar is not as high as [the defendant] would set it," the Court of Appeals concluded that the district court had identified specific designs and technology that could support a trade secret. The Court of Appeals next held that the district court did not err when it determined that (1) AtriCure had sent the trade secret information to Dr. Meng; (2) that Dr. Meng had used the trade secret information to sell competing products in China; and (3) the production and distribution of Dr. Meng's competing products was likely a misappropriation of AtriCure's trade secrets. The Court of Appeals then turned to the district court's remedy, which sought to bar Dr. Meng's activity in China. Concluding that (1) the OUTSA had extraterritorial effect and (2) the scope of the injunction was appropriate given the fact pattern presented, the Court of Appeals affirmed the district court's injunction.

***Babcock Power, Inc. v. Kapsalis*, 854 Fed.Appx. 1 (6th Cir. 2021).**

Industry

Technology

Takeaway

Under Kentucky state law, a party cannot use the "reasonable royalty" method to calculate damages arising from a breach of a non-disclosure agreement where that party has not put on evidence of actual damages.

Details

— **Procedural Posture:** Appeal of final judgment.

Factual Background: BPI and Vogt employed Steven Kapsalis for several years. Upon joining BPI, Kapsalis signed non-compete and non-disclosure agreements in which he promised not to divulge to third parties any of BPI's confidential information, which included BPI's technical designs and specifications, trade secrets, manufacturing techniques, financial data, and marketing strategies. Kapsalis' non-compete barred him, for one year, from diverting any business away from BPI after departing BPI. Kapsalis left BPI and joined Express, a competitor to BPI. Before leaving BPI, Kapsalis downloaded numerous files containing BPI's and Vogt's confidential and proprietary information, including customer and client contact lists, schematics, mechanical drawings, and strategic planning documents.

BPI and Vogt filed suit against Kapsalies in U.S. District Court for the Western District of Kentucky, claiming violations of the CFAA, the Lanham Act, and state-law claims for breach of contract, misappropriation of trade secrets, breach of fiduciary duty, and conversion of intellectual property. The District Court granted summary judgment for the former employee on CFAA, Lanham Act, and breach of fiduciary claims. Summary Judgment was also granted on the employer's claim that the former employee had diverted business away from the former employer. Employer's claims for breach of non-disclosure agreement and misappropriation of trade secrets proceeded to trial. The jury awarded $174,072 on the employer's misappropriation claim and $202,865 on the employer's breach of contract claim. Former employee moved to alter the judgment issued, arguing that under Kentucky law, employer's "reasonable-royalty" method of calculating damages for breach of the non-disclosure agreement, in the absence of any evidence of actual damages, was insufficient for anything more than a nominal damages award. The U.S. district court then reduced the non-disclosure agreement award to $1, entering a new judgment. Both parties filed appeals.

— **Court's Decision:** The Court of Appeals applied the basic rule of Kentucky law that a plaintiff may recover actual damages or nominal damages for breach of contract. Here, BPI experienced no reasonably certain actual damages from Kapsalis's breach of the non-disclosure agreement. Accordingly, the district court did not err in ruling that BPI could recover only nominal damages on its breach-of-contract claim.

Ohio

***Cheryl & Co. v. Krueger*, No. 2:18-CV-1485, 2021 WL 1662857 (S.D. Ohio Apr. 28, 2021).**

Industry

Retail/Consumer Goods

Takeaway

When drafting a non-compete provision, employers should ensure that it retains its intended meaning and scope when read in conjunction with the rest of the agreement and choose each word—even conjunctions like “and” or “or”—with precision.

Details

— **Procedural Posture:** Plaintiff, a gourmet cookie company, asserted trade secret misappropriation, breach of contract, and related claims against several former employees and their current employer. After discovery, the parties cross-moved for summary judgment.

— **Factual Background:** Plaintiff Cheryl & Co. (Cheryl’s) was founded and subsequently sold by Defendant Cheryl Krueger. Krueger then founded co-Defendant CKE Management, LLC (CKE), a competitor of Cheryl’s that also sells gourmet cookies, albeit using different recipes and selling them at a higher price point. After CKE opened for business, five of Cheryl’s largest corporate customers stopped placing orders with Cheryl’s and began ordering from CKE. CKE and Krueger also hired several Cheryl’s employees, each of whom had worked for Krueger when she still running Cheryl’s. All but one of the employees had signed a confidentiality and non-compete agreement as a condition of employment with Cheryl’s. One of the employees forwarded several emails from her work account to her personal account during her final two months at Cheryl’s, which included information relating to Cheryl’s actual and forecasted sales volume for the company’s core cookies, Cheryl’s production volume and schedule, corporate customer order information, average cookie costs, and ingredient lists for Cheryl’s best-selling cookies. Another of the employees forwarded hundreds of emails to her personal account containing corporate customer contact information.

— **Court’s Decision:** Applying New York contract law, the court found that the non-compete provisions in two employees’ agreements were overly broad and unenforceable. The non-competes prohibited the employees, for one year post-employment, from (1) selling similar goods or providing similar services to the goods sold or services performed while employed by Cheryl’s, or (2) “engaging or participating” or “becoming associated with” any “Competitive Business,” as defined in the agreement. With respect to the non-compete’s first prong, the court held that it was overbroad because the restriction was a “naked restraint” on an employee providing similar services anywhere in the United States, across all industries, and for any type of company. The court rejected the plaintiff’s argument that the language logically only limited an employee’s ability to work for a competitive business because only then would they need to perform “similar services.” The court disagreed, relying in large part on the fact that the second prong of the non-compete included an express reference to competitive businesses, whereas the first prong did not. The court also found that CKE did not qualify as a competitive business as defined in the non-compete’s second prong—even though CKE admitted in deposition testimony that it was a “direct competitor” of Cheryl’s in the cookie selling industry. The court based its decision on the fact that the agreement defined a “Competitive Business” as one that sold cookies through a specific list of channels, and because the drafters of the non-compete used the conjunction “and” instead of “and/or,” CKE did not satisfy the definition even though it sold cookies through all but one of the enumerated channels.

FirstEnergy Corp. v. Pircio, 524 F. Supp. 3d 732 (N.D. Ohio 2021).

Industry

Professional Services

Takeaway

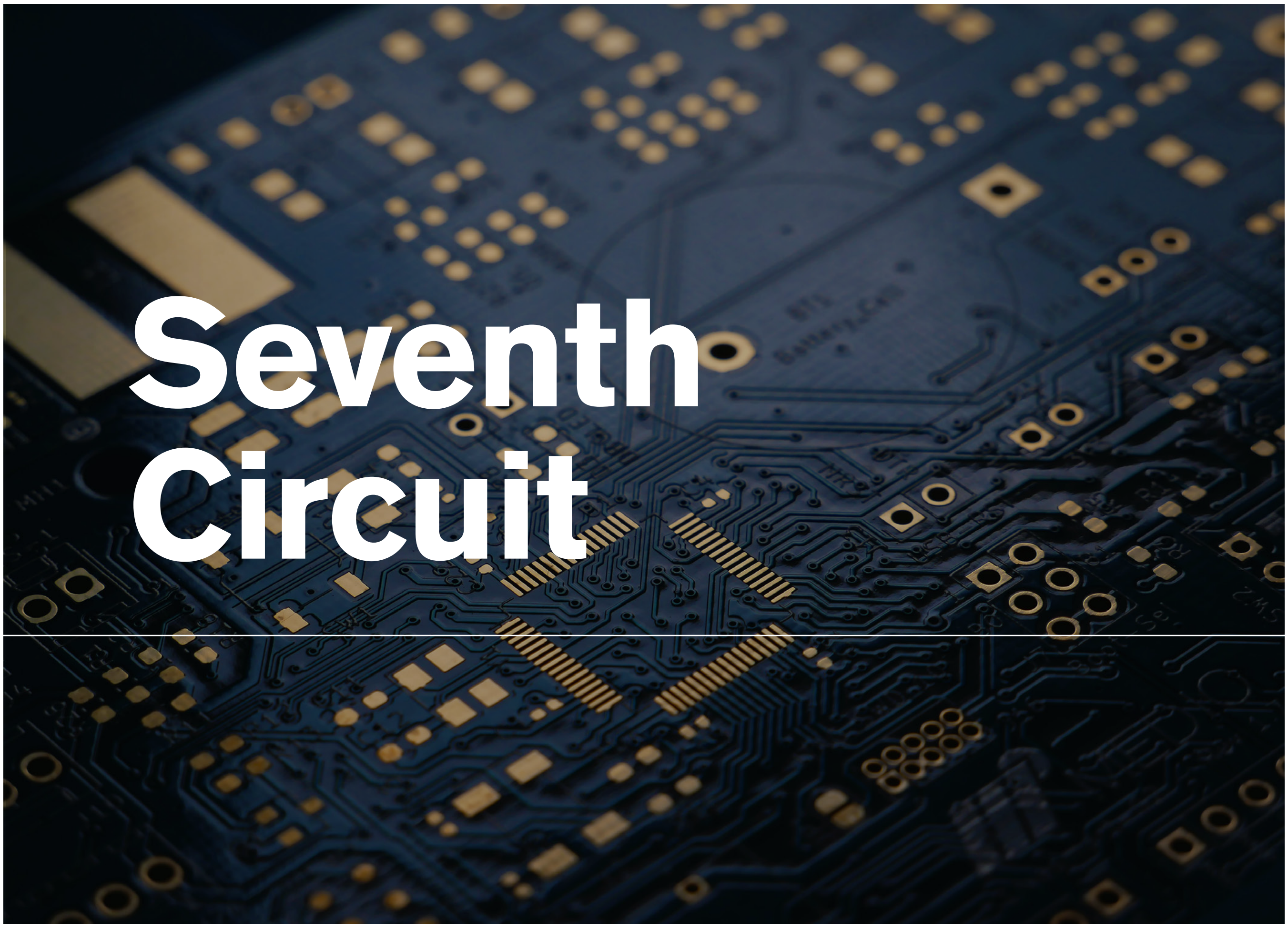
The Computer Fraud and Abuse Act (CFAA) does not apply where an employee accesses trade secret information without authorization, even where the employee has signed a confidentiality agreement prohibiting such unauthorized access. Further, whistleblower immunity under the Defend Trade Secrets Act (DTSA) applies not only to the disclosure of trade secret information to governmental authorities but also to a whistleblower's unauthorized access to such information.

Details

— **Procedural Posture:** Defendant moved to dismiss claims brought against him by his former employer and one of the employer's clients for misappropriation of the client's trade secrets, breach of contractual confidentiality obligations, and violations of the CFAA.

— **Factual Background:** Defendant Michael Pircio worked for Plaintiff Clearsulting LLC (Clearsulting) to provide consulting services to Plaintiff FirstEnergy Corp. (FirstEnergy) relating to Sarbanes-Oxley Act compliance. FirstEnergy's consulting agreement with Clearsulting required Clearsulting to guard against the unauthorized use of or access to FirstEnergy's confidential information by employees. Clearsulting did so by storing FirstEnergy's information on a password-protected shared drive with limited access and requiring employees, including Pircio, to sign non-disclosure agreements prohibiting them from disclosing any client confidential information or even accessing such information unless it was necessary to perform their job. After Clearsulting terminated Pircio's employment, it discovered that he had accessed FirstEnergy confidential information unrelated to the work he had been assigned. Pircio provided the information to his legal counsel and through him to the Securities and Exchange Commission, which opened an investigation into FirstEnergy.

— **Court's Decision:** The court granted Pircio's motion to dismiss the Plaintiffs' trade secret misappropriation claims, as well as a claim under the CFAA based on Pircio's unauthorized access to FirstEnergy's confidential information using his Clearsulting computer. With respect to the misappropriation claims, the court found that Pircio was entitled to whistleblower immunity under the DTSA because he had only disclosed confidential information to his attorney, and indirectly, to the SEC. The court rejected Plaintiffs' argument that Pircio was not entitled to whistleblower immunity because the DTSA's immunity provision applied only to the disclosure of trade secret information, not the unauthorized access to such information. The court reasoned that it would be nonsensical for the statute to protect a whistleblower's disclosure of trade secret information while subjecting him to liability for accessing the information that was the subject of a protected disclosure. Regardless, the court found that Pircio's unauthorized access had not violated the CFAA in the first instance because that statute was not meant to apply to the actions of a "disloyal employee who walks off with confidential information." It was instead "aimed at preventing the typical consequences of hacking, rather than the misuse of corporate information."



Seventh Circuit

Illinois

***Savis, Inc. v. Cardenas*, 528 F.Supp.3d 868 (N.D. Ill. 2021).**

Industry

Pharmaceuticals Industry

Takeaway

Non-competition clauses in Pharmaceutical Industry employment agreements continue to be upheld; however, lost profit damages are recoverable only if the former employer can demonstrate causation.

Details

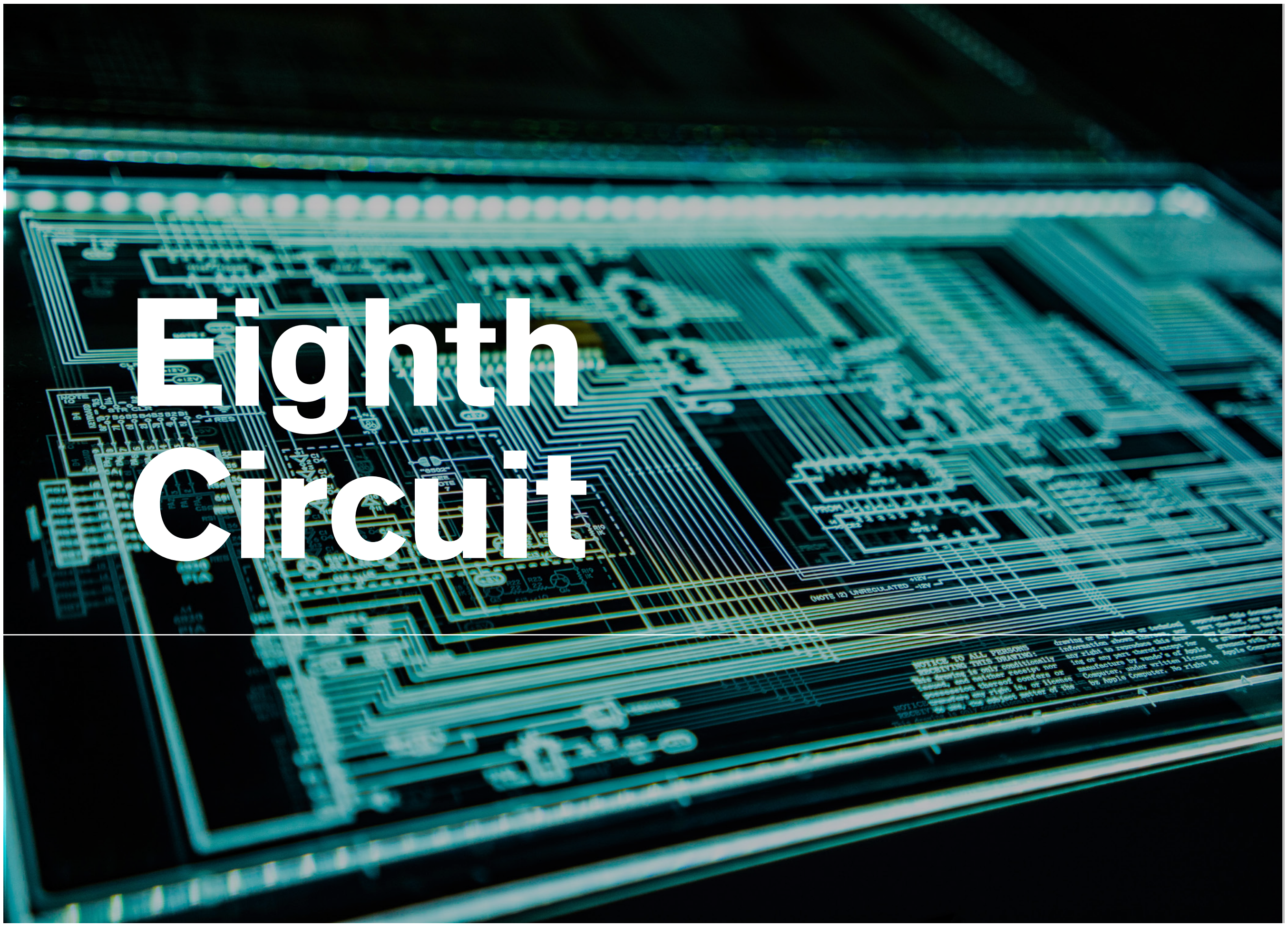
— **Procedural Posture:** Motion for Summary Judgement; Motion for Permanent Injunction

— **Factual Background:** Plaintiff Savis, Inc. provides consulting and manufacturing support services to clients in the pharmaceuticals industry. Savis hired Defendant Neftali Cardenas in 2016 as a "capital project engineer" providing services to Pfizer, which was one of Savis's clients, at Pfizer's facility in McPherson, Kansas. Cardenas signed an employment agreement with Savis that contained a non-competition clause, stating that while he worked for Savis and for two years after his termination of employment, he would not without Savis's prior written consent "directly or indirectly, make, offer, sell or furnish any productions or services similar to, or otherwise competitive with, those offered by the Company."

In September 2018, Cardenas left his position at Savis to take a job with Pfizer at the same facility. Thereafter, Savis filed suit against Cardenas, alleging claims of breach of employment contract, breach of fiduciary duty, breach of implied covenant of good faith and fair dealing, and tortious interference. Savis also moved for a preliminary injunction to enforce the non-competition and duty of loyalty causes in the employment agreements. After the close of discovery, Savis filed a motion for summary judgment.

— **Court's Decision:** In analyzing Savis' Motion, the court noted that under the Florida statute governing restrictive covenants, "a court shall not employ any rule of contract construction that requires the court to construe a restrictive covenant narrowly, against the restraint or against the drafter of the contract." Fla. Stat. § 542.335(h). Therefore, because the non-compete prohibited Cardenas from providing "similar or competitive services" to those provided by Savis, and because the facts demonstrated that Cardenas was doing just that in his role with Pfizer, the court granted summary judgment on the breach of contract claim. The court was not swayed by Cardenas' arguments that he supported a different segment of the Pfizer business than when he was working with Savis, or that he used different methods and tools. Under Florida law, "differences in organizational structure and products are material only where they result in material differences in the services offered by the employer and those provided by the former employee."

Savis sought damages of lost profits in an among exceeding $550,000, calculated by multiplying the amount it would have billed Pfizer per hour for Cardenas' services at the time of his resignation. The court rejected this calculation as ignoring "basic principles of Florida contract law." The court held that Savis must prove that it sustained the losses claimed as a direct result of Cardenas' breach. Cardenas had raised a genuine issue of fact as to whether his departure actually caused Savis to lose the project. In particular, Cardenas noted that he trained others to take over his duties, and that Savis hired an additional employee to support the project after his resignation. Finally, the court declined to issue a permanent injunction, noting that the non-compete had facially expired, and courts applying Florida law have consistently declined to issue forward-looking injunctions enforcing expired non-compete provisions.



Eighth Circuit

Missouri

***Phyllis Schlafly Revocable Tr. v. Cori*, 512 F. Supp. 3d 916 (E.D. Mo. 2021).**

Industry

Nonprofits and Associations

Takeaway

An electronic database of business contacts and related information may constitute a trade secret, even in the absence of confidentiality agreements for employees who had access to the database, where the database can only be accessed on one computer in a locked office by a handful of employees and is never disclosed to third parties (with exception of a technician who wrote the source code and management software).

Details

— **Procedural Posture:** Motions to dismiss misappropriation of trade secrets claim for failure to state a claim.

— **Factual Background:** The plaintiffs, a charitable trust fund, and related entities filed suit against the defendants, a former employee, and a nonprofit corporation and claimed, among other things, misappropriation of trade secrets. According to the complaint, the former employee and the nonprofit hired employees of the trust fund with access to an electronic database of business contacts and related information stole the database and then used it to promote their own activities and copycat events. The motions to dismiss were denied as to misappropriation of trade secrets claims.

- **Court's Decision:** The trust fund took adequate steps to protect the database as a trade secret. The absence of confidentiality agreements with the employees who had access to the database was not dispositive. The database could only be accessed on one computer in a locked office by a handful of employees and was never disclosed to third parties (with exception of a technician who wrote the source code and management software). Consistent with *Lyn-Flex W., Inc. v. Dieckhaus*, 24 S.W.3d 693, 699 (Mo. Ct. App. 1999), the database remained a trade secret even though the trust fund disclosed the database to the computer technician (who was not an officer of the trust fund), given the other allegations surrounding steps to protect the database's secrecy. The allegations specifying who stole the database, where they delivered the database for description, and the purpose for which they used the database (self-promotion and fundraising), satisfied the misappropriation element of the claim.

South Dakota

***Jim Hawk Truck-Trailers of Sioux Falls, Inc. v. Crossroads Trailer Sales & Service, Inc.*, 526 F. Supp. 3d 513 (D.S.D. 2021)**).

Industry

Transportation/Automotive Dealership

Takeaway

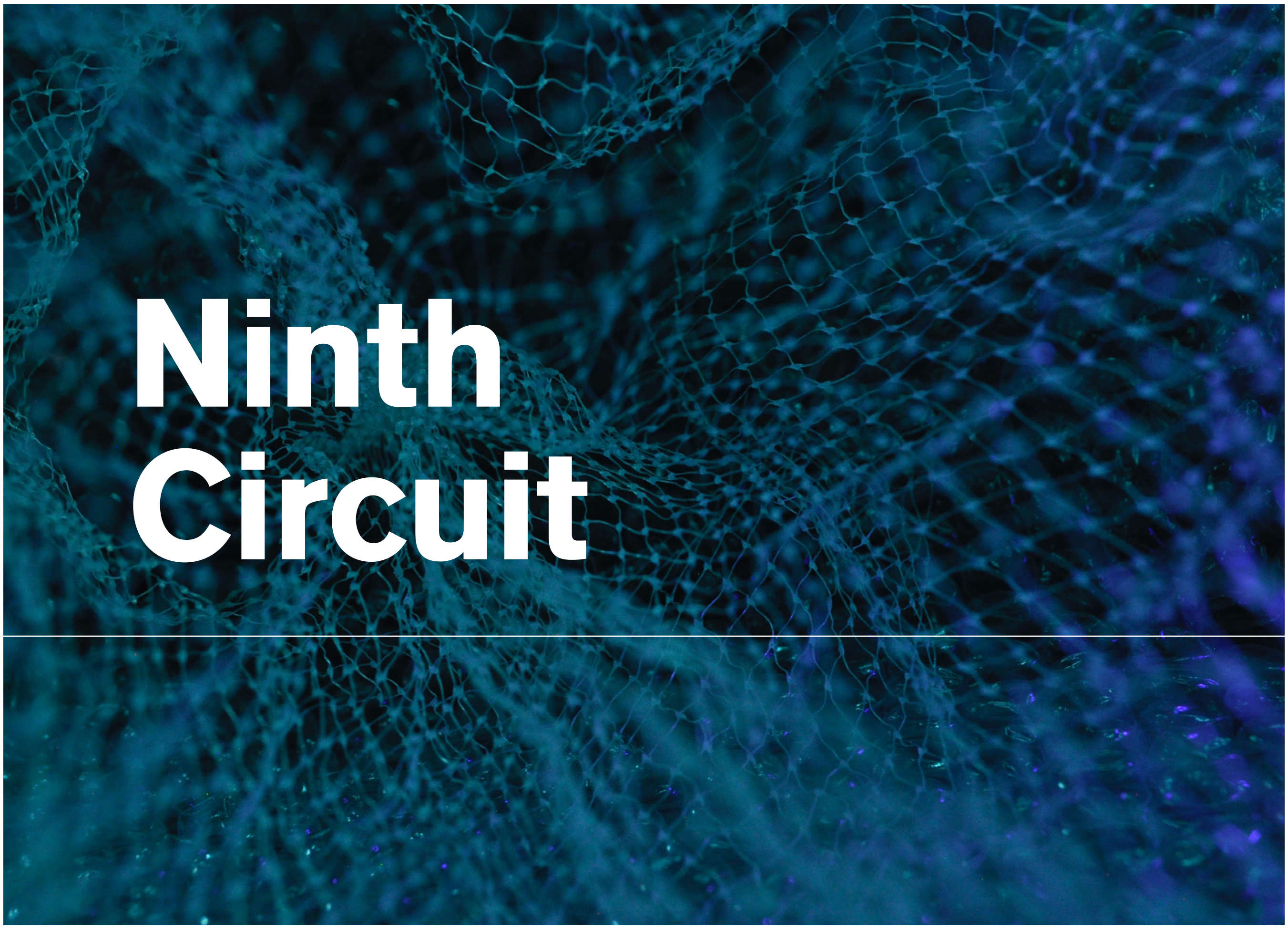
State tort claims may be preempted by the Uniform Trade Secret Act (UTSA) to the extent that the tort claims arise out of the alleged misappropriation of confidential or trade secret information.

Details

- **Procedural Posture:** Motion to dismiss for failure to state a claim.

- **Factual Background:** Crossroads Trailer Sales & Service, Inc. (Crossroads) allegedly improperly competed with Jim Hawk Truck-Trailers of Sioux Falls, Inc. (Jim Hawk) by poaching its sales and management employees and using confidential information to contact and solicit Jim Hawk's customers. In its complaint, Jim Hawk alleged that several of the former employees misappropriated trade secrets and confidential information in violation both the Defend Trade Secret Act and the South Dakota trade secret statute. Jim Hawk also alleged claims for breach of the duty of loyalty, tortious interference with business relations, civil conspiracy, unjust enrichment, and unfair competition.

- **Court's Decision:** The court concluded that Jim Hawk's claims for tortious interference with business relations, civil conspiracy, unjust enrichment, and unfair competition were "wholly displaced" by the UTSA. The UTSA (adopted by South Dakota) "'prevents a plaintiff from merely restating their trade secret claims as separate tort claims.'" The court rejected Jim Hawk's argument that the UTSA applies only to claims relating to "trade secrets" and not "confidential" information. Instead, the court held that "to the extent the tort claims arise out of the alleged misappropriation of confidential or trade secret information, the tort claims are displaced by the UTSA." On the other hand, if the tort claim amounts to "more than" or something "apart from" the misappropriation of confidential information, it should not be preempted by the UTSA.



Ninth Circuit

California

***Bambu Franchising, LLC v. Nguyen*, No. 5:21-CV-00512-EJD, 2021 WL 1839664 (N.D. Cal. May 7, 2021).**

Industry

Restaurant/Retail/Franchises

Takeaway

Companies sharing trade secrets with outside parties—even with affiliated entities or franchisees—should ensure appropriate safeguards are in place to maintain the actual secrecy of trade secret information, including using confidentiality agreements and restricting access to only those individuals with a need to know. Additionally, a lack of candor in business dealings can support an inference that a party engaged in trade secret misappropriation standing alone.

Details

— **Procedural Posture:** Plaintiff Bambu Franchising, LLC sought a preliminary injunction against a former franchisee and her successors in interest to enforce a non-competition covenant and prohibit them from using confidential recipes and related trade secrets.

— **Factual Background:** Bambu acquired the assets of a dessert beverage fast casual restaurant franchise, including confidential and proprietary recipes and goodwill associated with the business. The recipes had been developed by Defendant Jenny Nguyen, the seller of the business, who continued to operate a franchise shop with her daughter following the sale. Bambu employed numerous methods to maintain the secrecy of the recipes, all of which had been utilized by Nguyen prior to the sale. These methods included keeping the recipes in a conspicuously marked confidential "Recipe Guide," providing only one hard copy of the Recipe Guide to each franchise shop, and requiring franchisees to sign non-disclosure agreements and limit access to the Recipe Guide to only those employees with a need to know. Both the asset purchase agreement and franchise agreement, the latter of which was drafted by Nguyen, referred explicitly to the recipes as trade secrets. The franchise agreement also contained a non-compete provision prohibiting franchisees from selling any similar dessert beverages within ten miles of their franchise shop.

During the term of the franchise agreement for her shop, and unbeknownst to Bambu, Nguyen entered into an agreement with a corporation owned by family friends (LyChe) to give them a "trial run" at operating the shop to see if they would be interested in purchasing it. When Bambu decided not to renew the franchise agreement, it discovered that Lyche had been operating the shop and continued to do so after the agreement expired, selling the same products and retaining the same employees, who were not re-trained to use any new recipes. Bambu then filed claims against Nguyen and LyChe, among others, on the basis of trade secret misappropriation under federal and state law, breach of the non-compete provision, unfair competition, conspiracy, and intentional misrepresentation

— **Court's Decision:** The court granted Bambu's request for a preliminary injunction on its trade secret misappropriation and breach of contract claims. With respect to the misappropriation claims, the court rejected Defendants' argument that Bambu failed to make reasonable efforts to maintain the secrecy of the recipes. Instead, the court found that the asset purchase and franchise agreements' explicit reference to the recipes as trade secrets, as well as Bambu's use of non-disclosure agreements with its franchisees and provision of only one physical copy of the Recipe Guide, were sufficient to establish the recipes' trade secret status. The court also discounted Defendants' claim that no actual misappropriation had occurred, based in large part on Nguyen's secret arrangement with LyChe to transfer operational control of the shop, finding that their "lack of forthrightness with Bambu supports an inference of trade secret misappropriation." With respect to the breach of contract claim, the court affirmed that California's public policy against restraints on trade does not extend to non-competes entered into as part of the sale of the goodwill of a business, on the basis that it is "unfair for the seller to engage in competition which diminishes the value of the asset he sold."

***Wisk Aero LLC v. Archer Aviation Inc.*, No. 3:21-CV-02450-WHO, 2021 WL 4073760 (N.D. Cal. Aug. 24, 2021).**

Industry

Aeronautics

Takeaway

Circumstantial evidence of misappropriation may satisfy the pleading standard for a misappropriation of trade secrets, but will fall short of sustaining plaintiff's burden on a motion for preliminary injunction.

Details

— **Procedural Posture:** Wisk brought a claim alleging that Archer misappropriated many of Wisk's trade secrets (and infringed on Wisk's patents) when developing its own air taxi aircraft. Following significant expedited discovery, the Court addresses Wisk's motion for preliminary injunction stemming from that misappropriation, as well as Archer's motions to dismiss and to strike Wisk's trade secret disclosure.

— **Factual Background:** The parties are competitors in the air taxi industry – Wisk was established in 2010 and is backed by Google co-founder Larry Page, while Archer was founded more recently in 2018. At the heart of the dispute is the process by which Archer's air taxi aircraft was developed. Through expedited discovery, Wisk developed circumstantial evidence of misappropriation, including an accelerated timeline for development, which could only be accomplished with the benefit of Wisk's trade secrets, the visual similarity in the design and function of both company's air taxis, the hiring of multiple employees from Wisk by Archer, and the retention of confidential information by the former employees.

— **Court's Decision:** The standards for a motion to dismiss and a motion for preliminary injunction differ. While the circumstantial evidence of misappropriation presented by Wisk may suffice to survive a motion to dismiss, it was not sufficient to support a motion for preliminary injunction. In particular, Wisk failed to demonstrated that the confidential information retained by the its former employees was the same as, or connected to, the trade secrets identified by Wisk at the outset of the case (as required under California procedure). Rather, Wisk presented a disjointed picture of circumstantial evidence without sufficiently tying it to any bad act by Archer. The court explained, "Merely hiring a competitor's former employees—even when they possess the former employer's trade secrets—cannot demonstrate misappropriation on its own."

***Pub. Just. Found. v. Farm Serv. Agency*, No. C 20-01103 WHA, 2021 WL 1873186 (N.D. Cal. May 10, 2021).**

Industry

Public Finance/Public Agency

Takeaway

Documents included with a Farm Service Agency loan application did not qualify for exemption under FOIA's "trade secret/commercial information" exemption, where the application stated that the agency "may" disclose the loan information collected in an application to both government and non-government entities and, as such, did not provide an assurance of confidentiality.

Details

— **Procedural Posture:** Motion to determine legality under FOIA of Farm Service Agency's decision to withhold information in loan applications requested with respect to its farm loan program.

— **Factual Background:** Interest groups sought disclosure of information in loan applications held by agency administering federal loans to farmers. Agency withheld documents under FOIA exemption for "trade secrets and commercial or financial information obtained from a person and privileged or confidential." The loan application stated that it "may" disclose the information to "government agencies" and "nongovernmental agencies" that have been authorized access. Motion granted as to withholding of documents under "trade secrets and commercial or financial information obtained from a person and privileged or confidential," resulting in order requiring disclosure.

— **Court's Decision:** Consistent with *Gen. Servs. Admin. v. Benson*, 415 F.2d 878, 881 (9th Cir. 1969), FOIA exemption for confidential information only applies to information revealed to the government under an "express or implied promise by the government that the information will be kept confidential." Here, the language in the loan applications provided no assurance of confidentiality; rather, the applications expressly warned that information may be disclosed to "nongovernmental agencies that have been authorized access." The Court rejected the agency's suggestion to imply an assurance of confidentiality consistent with *U.S. Dep't of Just. v. Landano*, 508 U.S. 165 (1993), as *Landano* involved disclosures to law enforcement agencies, which are distinct from disclosures in the commercial context.

***Proofpoint, Inc. v. Vade Secure, Inc.*, No. 19-CV-04238-MMC, 2021 WL 5407521, at *3 (N.D. Cal. Nov. 18, 2021).**

Industry

Technology

Takeaway

The Northern District articulated a six-factor test for determining when exemplary (multiple) damages were appropriate arising from willful and malicious misappropriation of trade secrets under the Defend Trade Secrets Act (DTSA).

Details

— **Procedural Posture:** Post-trial request by plaintiff for exemplary damages, following jury verdict that defendant willfully and maliciously misappropriated trade secrets.

- **Factual Background:** Former Vice President of Gateway Technology at Cloudmark accused of misappropriating trade secrets upon joining Vade as Chief Technology Officer.

- **Court's Decision:** The Northern District of California considered the following six factors for determining whether to award exemplary damages under the Defend Trade Secrets Act: (1) "the degree of reprehensibility associated with the wrongdoer's actions"; (2) "the duration of misappropriative conduct"; (3) "the defendant's consciousness of resulting injury and any efforts to cover up malfeasance"; (4) "the need the deter similar misconduct in the future"; (5) "the amount of compensatory damages awarded"; and (6) "the wealth of the particular defendant."After considering each of the factors, the court denied the request for exemplary damages.

United States Of America, v. Donald Olgado, No. 17-CR-00603-BLF-2, 2022 WL 62538 (N.D. Cal. Jan. 6, 2022).

Industry

Semiconductor/Manufacturing/Technology

Takeaway

Expert testimony is required to prove the independent economic value of each trade secret allegedly stolen. Failure to do so resulted in acquittal on certain criminal counts.

Details

- **Procedural Posture:** Olgado was convicted on 11 counts of possession of stolen trade secrets and aiding and abetting such theft and possession. The defendant filed a motion for judgment of acquittal or, in the alternative, for a new trial.

- **Factual Background:** Olgado was an employee of Applied Materials, Inc., a software and electronics company that makes semiconductor chips. As described in the Indictment, Applied developed a multichamber, high-yield wafer capacity system for Metal Organic Chemical Vapor Deposition (MOCVD), a "highly complex process for growing crystalline layers by spraying different chemicals on wafers." Applied sought to protect the MOCVD trade secrets by housing relevant materials in a confidential database called Teamcenter, which could only be accessed by authorized individuals. The Indictment alleged that Olgado and his codefendants engaged in a conspiracy to steal Applied's technology and use it in a competing company called NVision in the US and China.

- **Court's Decision:** A trade secret is established by showing: "(1) the information is actually secret because it is neither known to, nor readily ascertainable by, another person who can obtain economic value from the disclosure or use of the information; (2) the owner took reasonable measure to maintain that secrecy; and (3) independent economic value derived from that secrecy." The third element requires expert, rather than lay, testimony to prove. The court concluded that the government's expert testified on the independent economic value of 3 of the 11 trade secrets underlying the criminal counts. As a result, the court granted the defendant's motion of acquittal for the 8 counts not sufficiently proven and denied the motion for the 3 counts supported by expert testimony.

***Cool Runnings International Inc. v. Gonzalez, et al.*, No. 1:21-cv-00974-DAD-HBK, 2021 WL 5331453 (E.D. Cal. Nov. 16, 2021).**

Industry

International Refrigeration and Cold Storage

Takeaway

The intra-corporate conspiracy doctrine may bar a Computer Fraud and Abuse Act (CFAA) conspiracy claim even where a plaintiff can demonstrate a likelihood of success on its misappropriation of trade secrets claim against multiple defendants.

Details

— **Procedural Posture:** Motion for Preliminary Injunction and Motion to Dismiss.

— **Factual Background:** Cool Runnings is a leading provider of commercial and industrial refrigeration and cold storage solutions. It spent significant resources to develop its trade secret and proprietary information (its bid matrix algorithms and Project Material Order Form). Three Cool Runnings employees, each of whom had access to the propriety information during their employment with Cool Runnings, resigned and began working at Defendant DRC, a newly formed refrigeration company. One of the former employees, Andronico Gonzalez, failed to immediately return his work-issued laptop. When he did finally return the laptop, Cool Runnings performed a forensic analysis which revealed that Mr. Gonzalez had copied multiple files from the laptop to various external storage devices. Months later, after DRC had outbid Cool Runnings for multiple refrigeration projects, one of the former employees inadvertently sent an email to Mr. Gonzales's Cool Runnings email address, attaching a file that was essentially an exact copy of Cool Runnings' Project Material Order Form, with revisions demonstrating it was being used by DRC to make bids. Cool Runnings filed a complaint alleging claims under the CFAA, conspiracy to violate the CFAA, breach of contract, and state and federal misappropriation of trade secrets. It also moved for a preliminary injunction against DRC and the former employees relating to the misappropriation claims. DRC in turn moved to dismiss the complaint.

— **Court's Decision:** The court first considered the motion for preliminary injunction, noting that Cool Runnings had successfully plead the existence of trade secrets by identifying the types of trade secret information that had been taken, providing example embodiments of the alleged trade secrets, and submitting a copy of the Project Materials Order Form under seal for the court's consideration. The court further noted that it was clear from the "extensive detail and precision" of the Order Form that access to it would allow DRC to calculate Cool Running's future bids and undercut them. Moreover, the court found that the undisputed evidence that Gonzalez downloaded and took information from Cool Runnings, in conjunction with the evidence from the inadvertent email sent to Gonzalez's Cool Runnings' email address which indicated that the information had in fact already been used, supported a likely finding of misappropriation. The court granted the motion for preliminary injunction with respect to the state and federal trade secret claims (CUTSA and DTSA).

Turning next to Defendants' motion to dismiss, the court focused only on the CFAA conspiracy claim. To make out a claim for conspiracy, a plaintiff must allege with particularity that the defendants "reached some explicit or tacit understanding or agreement." The intra-corporate conspiracy doctrine, however, provides that concerted action by officers within a single corporate entity cannot give rise to liability for conspiracy. Here, the Court noted that Cool Runnings had plainly alleged a violation of the CFAA by Mr. Gonzalez, but nevertheless granted the motion to dismiss the CFAA conspiracy claim noting that (1) Mr. Gonzalez could not conspire with DRC prior to the date of its founding, and (2) after the founding date, Mr. Gonzalez was a member manager of DRC and therefore its agent, which meant the claims were barred by the intra-corporate conspiracy doctrine.

***Twentieth Century Fox Film Corp. v. Netflix, Inc.*, No. B304022, 2021 WL 5711822 (Cal. Ct. App. Dec. 2, 2021).**

Industry

Media/Entertainment

Takeaway

Injunction barring future solicitation of employees employed in fixed-term contracts properly allowed by trial court where evidence established that (1) new employer was aware of fixed-term contracts and (2) specifically sought to solicit employees away from former employer with offers of higher wages and to cover legal fees in the event of suit.

Details

— **Procedural Posture:** On appeal, from trial court, following cross motions for summary judgment.

— **Factual Background:** Netflix, over the course of several years, recruited over a dozen employees from Fox who were employed by Fox on fixed-term (usually multi-year) contracts. Fox sued to enjoin Netflix from continuing to solicit its fixed-term employees under the Unfair Competition Law ("UCL"). The trial court issued an injunction over Netflix's objection that such injunction effectively amounted to specific performance relief requiring employees to continue working for Fox against their wishes.

— **Court's Decision:** Court of Appeal upheld trial court's determination, finding that the case differed from specific performance relief, which had been rejected by prior courts in California, because injunction did not bar employees from leaving Fox. Rather, all that was enjoined was Netflix's solicitation of fixed-term Fox employees. Where, for instance, an employee left Fox of their own volition and then sought employment from Netflix, such conduct would not violate trial court's injunction.

Oregon

***Peterson Mach. Co. v. May*, 313 Or. App. 454 (2021).**

Industry

Sales/Manufacturing

Takeaway

An employee's memory is insufficient by itself to support a claim of misappropriation of trade secrets.

Details

— **Procedural Posture:** The lower court granted defendant's motion for summary judgment and dismissed plaintiff's misappropriation claim with prejudice. Plaintiff appealed and the appellate court affirmed the trial court

— **Factual Background:** May was an employee of Peterson, who left Peterson to work for Modern, a competitor of Peterson. Both Peterson and Modern service, rent, and sell heavy machinery in Oregon; and May rented and sold heavy machinery for both. While employed by Peterson, May used SalesLink, Peterson's customer relations management system, which contained detailed information about Peterson's customers and potential customers. Peterson allegedly used SalesLink after accepting a job offer at Modern for purposes outside of his job, and Peterson claimed that such behavior constituted trade secret misappropriation.

— **Court's Decision:** Peterson may be correct that May was aware of certain trade secrets of Peterson when he left the Company's employ after 11 years and having had access to SalesLink. That said, the court noted that "equity has no power to compel a man who changes employers to wipe clean the slate of his memory." Therefore, evidence of May's ability to remember information learned while working at Peterson and his continued use of that information after leaving the Company is, in the court's view, insufficient to create a genuine issue of material fact to support a claim of misappropriation of trade secrets.

***Edwards Vacuum, LLC v. Hoffman Instrumentation Supply, Inc.*, No. 3:20-cv-1681-SI, 2021 WL 3721818 (D. Or. Aug. 23, 2021).**

Industry

Manufacturing

Takeaway

Trade secret claims may under certain circumstances generate antitrust counterclaims which, in turn may expand the scope of the litigation significantly.

Details

— **Procedural Posture:** Motion to dismiss for failure to state a claim.

— **Factual Background:** Edwards Vacuum, LLC, a company that designs integrated vacuum pump systems for computer chip manufacturers, sued one of its suppliers, Hoffman Instrumentation Supply, Inc. (HIS), which had recently begun competing, designing, making, and selling its own vacuum pump systems. The parties had been in discussions for HIS to become an exclusive supplier, and for Edwards to potentially acquire HIS. The parties exchanged confidential information pursuant to a non-disclosure agreement (NDA) before the discussions fell apart. In its complaint, Edwards alleged that HIS misappropriated trade secrets, among other claims.

HIS counterclaimed asserting antitrust claims, including that Edwards was monopolizing and attempting to monopolize within the relevant market in violation of Section 2 of the Sherman Act. In its motion to dismiss the antitrust counterclaims, Edwards argued that HIS could not demonstrate anticompetitive conduct. HIS alleged that Edwards anticompetitive conduct included: (a) demanding a non-compete agreement from HIS in exchange for designating HIS a “preferred supplier”; (b) letting Edwards’ officers incorrectly assume that Edwards and HIS had entered into a non-solicitation agreement of each company’s respective employees; (c) warning one of HIS’s customers not to do business with HIS, implying that doing so would risk retaliation from Edwards; (d) exploiting HIS’s confidential information in breach of the NDA after refusing to acquire HIS, in order to obstruct HIS’s entry into the market; and (e) asserting frivolous claims against HIS in retaliation for HIS competing against Edwards, thereby increasing HIS’s costs and chilling demand for HIS’s competitive product.

— **Court’s Decision**: The court concluded that none of the first four categories (a-d) amounted to anticompetitive conduct. With respect to the allegedly retaliatory and frivolous claim, Edwards contended that the Noerr-Pennington doctrine immunized its lawsuit from challenge under the antitrust laws. The Noerr-Pennington doctrine generally immunizes a party from antitrust liability arising from “petitioning activity,” including the filing of lawsuits. But the doctrine does not protect parties that bring sham lawsuits. The court held that HIS had sufficiently alleged that Edwards’ trade secret claims were frivolous, such that the exception to the Noerr-Pennington doctrine applied. Accordingly, the court declined to dismiss the antitrust counterclaim alleging a sham lawsuit at the 12(b)(6) stage. The court noted that it might reach a different conclusion about the lawsuit as the case proceeded, particularly if Edwards prevailed on its claims

Although the antitrust counterclaim was permitted to proceed, the court birfurcated the counterclaims from the rest of the litigation and stayed all discovery related to the antitrust claim. The court noted that “antitrust claims by their nature are more complex and expensive to litigate than litigating a discrete breach of contract claim.” Even though only the “sham litigation” issue remained on the counterclaim, it would still be “expensive and intrusive.” The court further explained, “Edwards’ defense against HIS’s monopolization and attempted monopolization counterclaims will also involve lengthy, complex, and expensive litigation over the proper market definition and the assessment of market power (including barriers to entry) in that properly defined market. All of that would be wasteful if HIS cannot show that Edwards’ trade secret claims were objectively baseless.”

Washington

NW Monitoring LLC v. Hollander, No. C20-5572 RSM, 2021 WL 1424690 (W.D. Wash. Apr. 15, 2021).

Industry

Prescription Drugs/Pharmaceuticals/Healthcare

Takeaway

“Hospital credentialing information” may be a trade secret even if the former employee charged with misappropriating such information has prior knowledge of the base information, where known base information may be transformed into a proprietary trade secret.

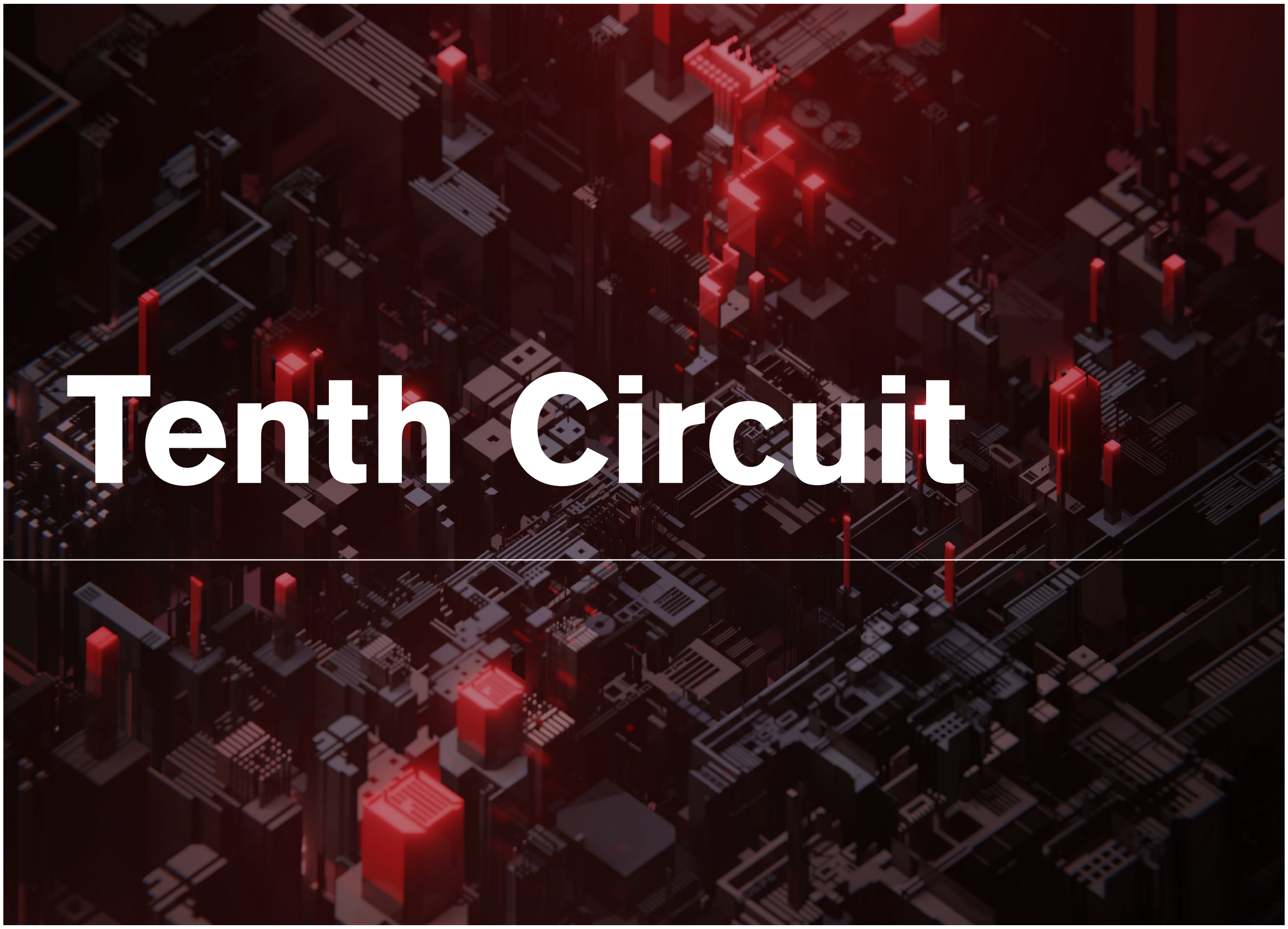
Details

— **Procedural Posture:** Motions to dismiss, among other claims, misappropriation of trade secrets count for failure to state a claim.

— **Factual Background:** The plaintiff, a medical provider, alleged that two defendants, who were former employees, conspired with two other defendants, who were the provider’s competitors, to, among other things, misappropriate trade secrets. The provider alleged that one former employee, while she was still employed by the provider, emailed “information related to hospital credentialing and physician license renewals” to her personal email and then used that information for the competitors’ benefit. The provider alleged that the other former employee created unauthorized accounts allowing the competitors to later access “electronic medical records and customer pricing information” on the provider’s protected computer system, and then diverted customers away from the provider. The motion was denied as to misappropriation claims.

— **Court’s Decision:** The court held that customer pricing information “clearly” constituted a trade secret. “Hospital credentialing information” may be a trade secret, even if one of the former employees had knowledge of the base information, as the way that information was compiled could turn that base information into a proprietary trade secret. The provider's allegations pertaining to one former employee's emailing of information to her personal email and the other former employee's creation of user accounts for later access to information sufficiently alleged misappropriation.

The provider's failure to allege that the former employees in fact accessed the trade secret information on the provider's system did not render the claim deficient, as other facts surrounding the transfer of information and commercial benefit of accessing such information gave rise to inference of misappropriation. Finally, the provider's allegation one of the competitors, who now employed the former employees, "directly or indirectly aided, assisted, abetted, advised, encouraged, or counseled" the former employees was sufficient to state a claim considering other allegations, despite conclusory nature of allegation pertaining to specific acts by competitor.



Tenth Circuit

Colorado

***Postnet International Franchise Corp. v. Wu*, 521 F.Supp.3d 1087 (D. Colo. 2021).**

Industry

Manufacturing/Shipping/Logistics/Franchises

Takeaway

Forum selection and choice-of-law provisions continue to be broadly construed and upheld, so contracting parties should conduct careful due diligence before subjecting themselves to a certain jurisdiction's law.

Details

— **Procedural Posture:** Plaintiff-franchisor sued defendant-franchisee in Colorado state court for breaching a covenant not-to-compete after defendant opened a competing business directly across the street from the former franchise. Defendant removed the case and filed a motion to transfer venue to California as the jurisdiction where the businesses were located.

— **Factual Background:** The parties were previously contracted with one another through a franchise agreement for a printing and shipping store in California. Defendant agreed not to compete for a period of one year and within 10 miles of his former franchise following the agreement's expiration. The agreement also contained a dispute resolution clause providing that jurisdiction would vest in the Colorado courts and that Colorado law would control. PostNet (the franchisor) had also provided the defendant with separate disclosure documents which state that California law voids agreements subjecting them to the laws of another state, and that non-competes may not be enforceable under California . Regardless, PostNet noted that it intended to enforce the agreement despite these provisions of California law, that Colorado law was more restrictive on the issues, and that defendant should carefully compare the two states' laws. The defendant operated a franchise until the expiration of the agreement and then immediately opened a competing business nearby. PostNet sued for breach of the non-compete clause, and defendant sought to transfer venue to California and to void the clause designating the application of Colorado law.

— **Court's Decision:** The forum selection clause was unquestionably enforceable based upon Supreme Court precedent and federal statutory law, which favors the enforcement of such provisions. Moreover, Colorado law, which must be applied to determine the reasonableness of forum selection clauses if, for example, a contract executed within Colorado provided for the application of a different state's law, would lead to the same result. In that same vein, the court held that the contract's choice-of-law provision – which specified Colorado law – was also valid. Although California law disfavors non-compete agreements in the employer-employee context (hence why the defendant sought for California law to apply), the court opined that this dispute was of a business nature rather than an employment issue, and the two states' laws were not so divergent in that aspect as to contradict one another. Thus, even though the defendant's franchise was located in California, the court recognized that because Colorado also retained a substantial interest in the outcome of the dispute (it being the residence of the plaintiff who had suffered damages), the choice-of-law provision should be enforced. With regard to the disclosure materials referencing that California law could trump the forum selection, choice-of-law, and non-compete covenant provisions of the agreement, the court found no essential "meeting of the minds" between the parties, as defendant asserted occurred, because PostNet had warned defendant that it would seek enforcement under Colorado law and that Colorado law would favor the provisions.

Utah

Gatti v. Granger Medical Clinic, P.C., 529 F. Supp. 3d 1242, 1250 (D. Utah 2021).

Industry

Healthcare

Takeaway

Taking reasonable steps to maintain the confidentiality of business information can support a showing that the information consists of trade secrets even in the absence of evidence that the information itself is of economic value.

Details

— **Procedural Posture:** Following discovery, the parties cross-moved for summary judgment on the plaintiff's retaliation claim under the False Claims Act and defendant's counterclaim for trade secret misappropriation and breach of a non-disclosure agreement.

— **Factual Background:** Gatti was employed as a coding auditor in Granger's medical practice who was responsible for ensuring Granger submitted the right codes to insurance companies, Medicare, and Medicaid. When Gatti came to believe that members of the medical staff were committing Medicare fraud, she made several attempts to raise her concerns internally and later told her supervisor that she believed she had grounds to file a *qui tam* lawsuit under the Fair Claims Act (FCA). One month later, Granger terminated Gatti's employment as part of a restructuring in its coding department, which Gatti maintained was pretext for whistleblower retaliation. Gatti retained several documents containing confidential information about Granger's coding and billing practices "for the purpose of reporting or investigating a suspected violation of law." Granger contends that in doing so she misappropriated trade secrets and breached a provision in her employment requiring her to return all confidential information upon termination.

— **Court's Decision:** The court granted summary judgment for Gatti on Granger's counterclaims for breach of contract and damages resulting from Gatti's misappropriation of trade secrets. The court held that Granger had failed to show that it suffered actual damages that were caused by Gatti's retention of confidential documents; rather, the damages Granger claimed—attorneys' fees and costs for defending against Gatti's retaliation claim—were not caused by Gatti's alleged misappropriation because Granger produced no evidence that the retaliation claim could not have been pursued without those documents. However, the court permitted Granger's counterclaims for injunctive relief to proceed, rejecting Gatti's argument that the information she retained did not constitute trade secrets because Granger did not derive economic value from its continued secrecy. The court did so based on testimony that Granger took reasonable steps to keep the information out of the public domain, which created an inference that it derived economic value from keeping such information from being known by competitors.

Wyoming

Brown v. Best Home Health & Hospice, LLC, 2021 WY 83, 491 P.3d 1021 (Wyo. 2021)

Industry

Nursing/Healthcare

Takeaway

Employees have a right to contest a non-compete agreement for lack of consideration or for the agreement not being in the public interest.

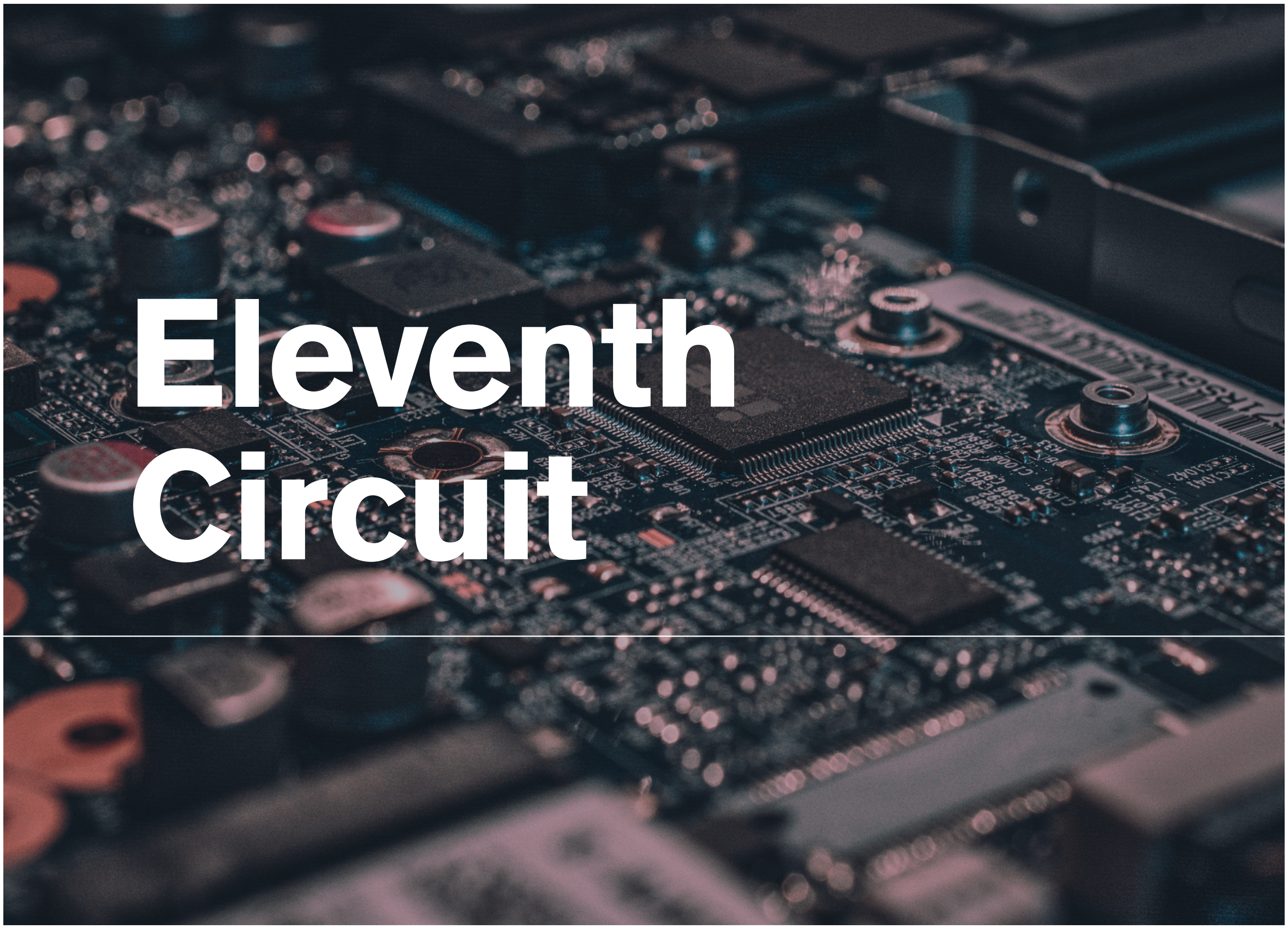
Details

- **Procedural Posture:** District Court granted employer's request for a preliminary injunction to prevent former employees from working for competitors. Former employees appealed, and the appellate court reversed and remanded the decision.

- **Factual Background:** Defendants were registered nurses who worked for plaintiff's hospice. Plaintiff sued defendants for violating a non-compete provision of their employment agreement. Defendant nurses sought to present evidence on how the enforcement of the non-compete provision would harm the public interest, but the district court did not allow this. Defendant nurses also proffered evidence that they were not offered any additional consideration for signing the non-compete agreements.

- **Court's Decision:** The weight of the evidence established that Plaintiff required every existing employee to sign a non-compete agreement, but did not provide separate consideration for doing so. Additionally, the court found that the district court abused its discretion by refusing to allow the nurses to testify about how the injunction may harm the public interest, also an important factor in granting a preliminary injunction. For these reasons, the court concluded that plaintiff did not met the "likelihood of success" component of a preliminary injunction and, accordingly, denied the injunction.

Eleventh Circuit



***AcryliCon USA, LLC v. Silikal GmbH*, 985 F.3d 1350 (11th Cir. 2021).**

Industry

Manufacturing

Takeaway

Trade secret misappropriation requires proof that the defendant owed the plaintiff a duty to maintain the trade secret's secrecy or limit its use *at the time the defendant acquired the trade secret*.

Details

— **Procedural Posture:** Appeal of Post-Verdict Motion for Judgment

— **Factual Background:** The parties in this matter shared a trade secret consisting of the formula for a floor resin that Silikal GmbH (Silikal) bought, manufactured, and sold. Pursuant to an agreement, AcryliCon-USA, LLC (AC-USA) and its international affiliate were Silikal's exclusive distributors. The parties shared the formula as part of their relationship but disputed which party actually owned the formula. AC-USA brought a variety of claims against Silikal, including a claim for trade secret misappropriation under the Georgia Uniform Trade Secret Act. A jury held that Silikal misappropriated the formula from AC-USA, and the district court denied Silikal's post-verdict motion for judgment as a matter of law. Silikal appealed to the Eleventh Circuit.

— **Court's Decision:** The court held that the district court erred in denying Silikal's motion for judgment. Specifically, the court held that AC-USA had failed to demonstrate that Silikal had a duty to maintain the confidentiality of the formula at the time Silikal acquired it. The record evidence showed, at best, that the parties' predecessors had developed the formula together and that Silikal agreed that the formula would be the property of AC-USA's international affiliate. Thus, Silikal owed a duty to the international affiliate, but not to AC-USA, which did not even exist at the time. Silikal's duty to AC-USA arose years later when the parties entered into a settlement agreement relating to other lawsuits, at which time Silikal expressly agreed to preserve the secrecy of the formula. Because the duty to AC-USA arose long after Silikal first acquired the trade secret, its claims under the uniform act failed.

Fin. Info. Techs., LLC v. iControl Sys., USA, LLC, No. 20-13368, 2021 WL 6061785 (11th Cir. Dec. 22, 2021).

Industry

Software/Technology

Takeaway

In calculating lost profit damages for willful and malicious misappropriation of trade secrets under the Florida Uniform Trade Secrets Act, it is not necessary to deduct fixed costs from revenues, but it is necessary to deduct marginal costs. Additionally, a request for permanent injunction will be denied when it is not tied to specific trade secrets or appropriately limited in time.

Details

— **Procedural Posture:** Appeal of jury verdict.

— **Factual Background:** Fintech and iControl are competitors in the niche market of computer software that rapidly processes electronic payments for wholesale alcoholic beverages. The software is useful because many states require retailers to pay cash on delivery for alcohol shipments. After spending about 15 years developing the specialty software, Fintech was the first player in the market. In 2013, iControl began selling software similar to Fintech's at a lower price. In connection with its market entry, iControl hired both Fintech's former VP of Operation, who had been heavily involved in designing Fintech's software and a former Fintech sales representative, each of whom was bound by a nondisclosure agreement with Fintech. After losing a number of customers, Fintech filed suit in 2017, alleging iControl violated the FUTSA by misappropriating seven Fintech trade secrets. A jury found in favor of Fintech at trial and awarded $2.7 million in actual damages and $3 million in exemplary damages.

iControl filed a motion for new trial and a renewed JMOL motion on damages, and Fintech moved for a permanent injunction "prohibiting iControl from doing business in the regulated commerce industry." The district court denied each of the motions, and both parties appealed.

— **Court's Decision:** FUTSA's damages provision states that "damages can include both the actual loss caused by misappropriation and the unjust enrichment caused by misappropriation that is not taken into account in computing actual loss." Fla. Stat. § 688.004(1). The dispute before the court was what constitutes "actual loss." iControl argued that Fintech could recover only lost profits (revenue from lost customers less the costs it would have incurred servicing the clients) and that both fixed and marginal costs should be subtracted from the revenues. Fintech, on the other hand, argued that Florida law does not require the deduction of fixed costs in trade secrets cases, that the marginal costs were nominal, and that as a result, it can, in essence, recover lost revenue. The court agreed with Fintech as it related to fixed costs, noting that Fintech continued to incur its fixed costs despite the lost customers. Moreover, there was no clear causal link between the fixed costs, which remained steady, and the misappropriation. Turning next to marginal costs, the court analyzed the testimony at trial that adding customers to Fintech's platform incurred only minimal costs and noted that it was not clear from this testimony that the marginal costs were actually zero. Having failed to prove that marginal costs were zero, Fintech was not entitled to recover its full amount of lost revenues.

Finally, in connection with Fintech's request for a permanent injunction, the court noted that pursuant to the text of FUTSA, an injunction should ordinarily be for a specific period of time, which may be extended in certain circumstances and should be limited to specific, identifiable trade secrets rather than a blanket restraint of competition. Fintech's proposed permanent injunction swept too broadly and was appropriately denied.

Larweth v. Magellan Health, Inc., 841 Fed. App'x 146 (11th Cir. 2021).

Industry

Pharmaceuticals/Healthcare

Takeaway

An employer's breach of certain provisions of an employment agreement does not nullify or otherwise minimize the enforceability of any restrictive covenants contained within it.

Details

- **Procedural Posture:** Larweth was a former employee of Magellan Health, Inc. (Magellan) and brought lawsuit for breach of contract and other tort claims. Magellan counterclaimed against plaintiff for breaching certain restrictive covenants. The trial court granted a preliminary injunction to the defendant, and employee appealed.

- **Factual Background:** Larweth worked in the pharma industry for 30 years for various companies. Larweth was employed by Magellan when it acquired a smaller company at which he had previously worked. Larweth signed an employment agreement, a non-compete clause, a non-solicitation of customers clause, and a non-solicitation of employees clause. Larweth was later fired by Magellan and sued for unpaid bonuses he claimed were owed.

- **Court's Decision:** During the argument and briefing on the motion for preliminary injunction, Larweth asserted that Magellan was not likely to succeed on the merits because it had breached the parties' employment agreement by failing to compensate the plaintiff for his bonuses. The trial court had held that those contractual provisions, which were included in a "commission plan" that Larweth contended had been incorporated into the employment agreement, were entirely separable and irrelevant to the restrictive covenant clauses. The Eleventh Circuit agreed, though on a different basis, reasoning that the employment agreement, which predated the existence of the "commission plan," merely stated that Larweth would "be eligible" for bonuses, not that it was bound to compensate him. In these circumstances, the principal contract controls and any subsequently incorporated terms are potentially unenforceable if they conflict.

Florida

Gulfcoast Spine Inst., LLC v. Walker, 313 So. 3d 854 (Fla. Dist. Ct. App. 2021).

Industry

Healthcare

Takeaway

A party disputing the cost of medical care is not automatically entitled to discovery of trade secrets and cannot bypass a showing of reasonable necessity.

Details

- **Procedural Posture:** Petition for Writ of Certiorari; Motion to Compel Discovery.

- **Factual Background:** Defendant Robert Martinez negligently collided his vehicle with Plaintiff Sonja Walker's. After the accident, Mrs. Walker sought and received medical treatment from BioSpine Institute, LLC, among other medical providers. BioSpine later billed Mrs. Walker's insurer for the treatment, and the insurance provider only agreed to pay for a portion of the costs. Because Mrs. Walker was responsible for the costs not covered by her insurance provider based on her agreement with BioSpine, she and her husband decided to sue Martinez for negligence, vicarious liability, and loss of consortium. Martinez admitted liability but contested the amount of damages. Thereafter, Martinez sought extensive discovery from BioSpine, including a request to produce BioSpine's billing and financial information such as the company's methodology for determining its pricing, methodology for using CPT codes, contracts it had reached with private insurers, and so on. Moreover, some of the requests pertained to patients not involved in the case but received the same treatment as Mrs. Walker over the past three years.

— **Court's Decision:** The Court granted the writ of certiorari and quashed discovery requiring the disclosure of non-party trade secrets. Previous Florida cases have allowed such disclosure in the context of discovery disputes between parties, where the medical provider placed the reasonableness of its charges at issue by suing its client. Here, Martinez failed to show reasonable necessity, including by failing to explain why he could not utilize other common methods for challenging the reasonableness of medical costs. The court also rejected Martinez's argument that the agreement between Mrs. Walker and BioSpine constituted a letter of protection because the argument was contrary to the plain language of the agreement.

Osceola Cty. Bd. of Cty. Commissioners v. Sand Lake Surgery Ctr., LLC, 320 So. 3d 950 (Fla. Dist. Ct. App. 2021).

Industry

Healthcare

Takeaway

Because the burden is on the party resisting discovery to show that the material sought constitutes a trade secret, it must provide appropriate proof of same as part of the record.

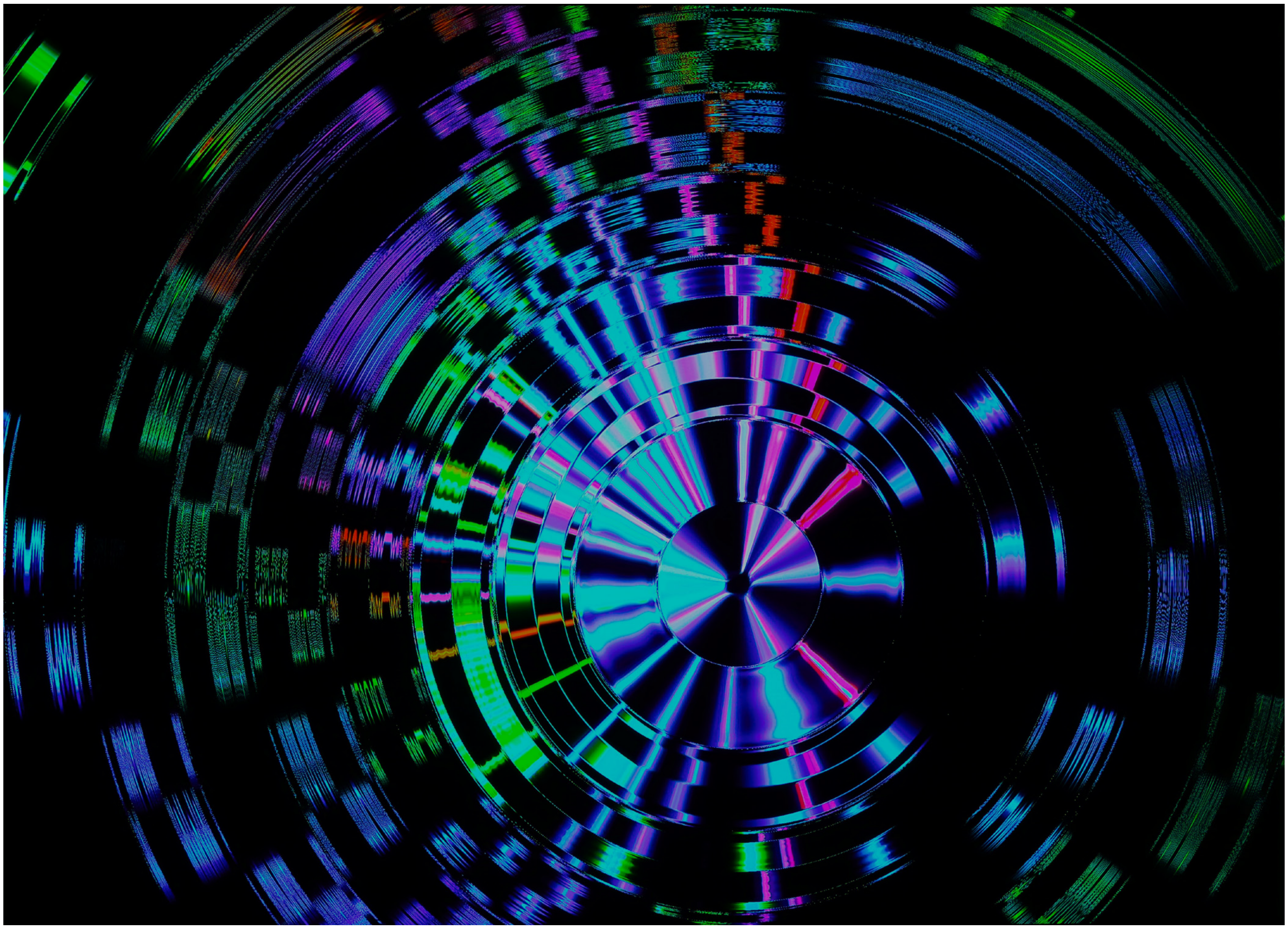
Details

— **Procedural Posture:** On Appeal; Motion to Compel

— **Factual Background:** Plaintiffs Lori Blake and Kristie Gilmore sued Appellant, Osceola County Board of County Commissioners, for injuries sustained in a malfunctioning elevator in the County's parking garage. Plaintiffs were treated pursuant to letters of protection at Sand Lake Surgery Center, LLC, which sold Plaintiffs' accounts receivables to American Medical Funding ("AMF"), a factoring company.

The County requested documents from Sand Lake related only to Plaintiffs, including medical records, billing records, payments of bills, and records relating to any sale of Plaintiffs' outstanding accounts to third parties. Sand Lake provided Plaintiffs' medical treatment and billing records but stated that it could not provide documents related to payments made towards Plaintiffs' bills, write-offs or discounts applied to Plaintiffs' bills, or records reflecting the sale or transfer of any debt or bill owed by Plaintiffs because Sand Lake agreed to keep such documents confidential in its contract with AMF.

— **Court's Decision:** The court held that the information sought was relevant to the reasonableness of Plaintiffs' damages in personal injury claim. Furthermore, neither Sand Lake nor AMF provided proof that the documents sought were trade secrets; not even the agreement between them that they allege designated the information as confidential or trade secret.



***Family Heritage Life Insurance Co. of Am. v. Combined Insurance Co. of Am.*, 319 So. 3d 680 (Fla. Dist. Ct. App. 2021), reh'g denied (May 6, 2021).**

Industry

Insurance

Takeaway

Deliberately competing with a former employer, in violation of a non-compete agreement, and using confidential information against a former employer constitutes trade secret misappropriation.

Details

— **Procedural Posture:** Circuit Court granted a former employer's temporary injunction to prevent former employees from working for a competitor, for allegedly breaching contract, and for the competitor allegedly tortuously interfering with the former employer's business. Former employees and competitor appealed, and the appellate court affirmed the circuit court.

— **Factual Background:** Combined Insurance is in the business of selling supplemental insurance, and Family Heritage is a direct competitor. Urgelles and Pineda were former employees of Combined, part of a special team at Combined called Division 48, which is made up of Spanish-speaking employees who target Spanish-speaking markets. Urgelles was in possession of a secret document called Alpha Roster, which contained the contact information for all agents in Division 48, and Urgelles sent this information to his private email. Urgelles and Pineda both signed employment agreements with Combined, which contained confidentiality clauses and restrictive covenants. Family Heritage proceeded to hire/attempt to hire many members in Division 48 from Combined Insurance.

— **Court's Decision:** Urgelles and Pineda knowingly breached their employment agreements and used unauthorized confidential documents after leaving Combined Insurance. There was evidence in the record that Family Heritage knew of and was benefiting from Urgelles's and Pineda's breaches. Even after Combined Insurance sent a letter to stop Urgelles and Pineda, they continued to solicit employees and policyholders from Combined on behalf of Family Heritage.

Georgia

Gallagher Benefit Services, Inc. v. Campbell, 528 F. Supp. 3d 1326 (N.D. Ga. 2021).

Industry

Insurance

Takeaway

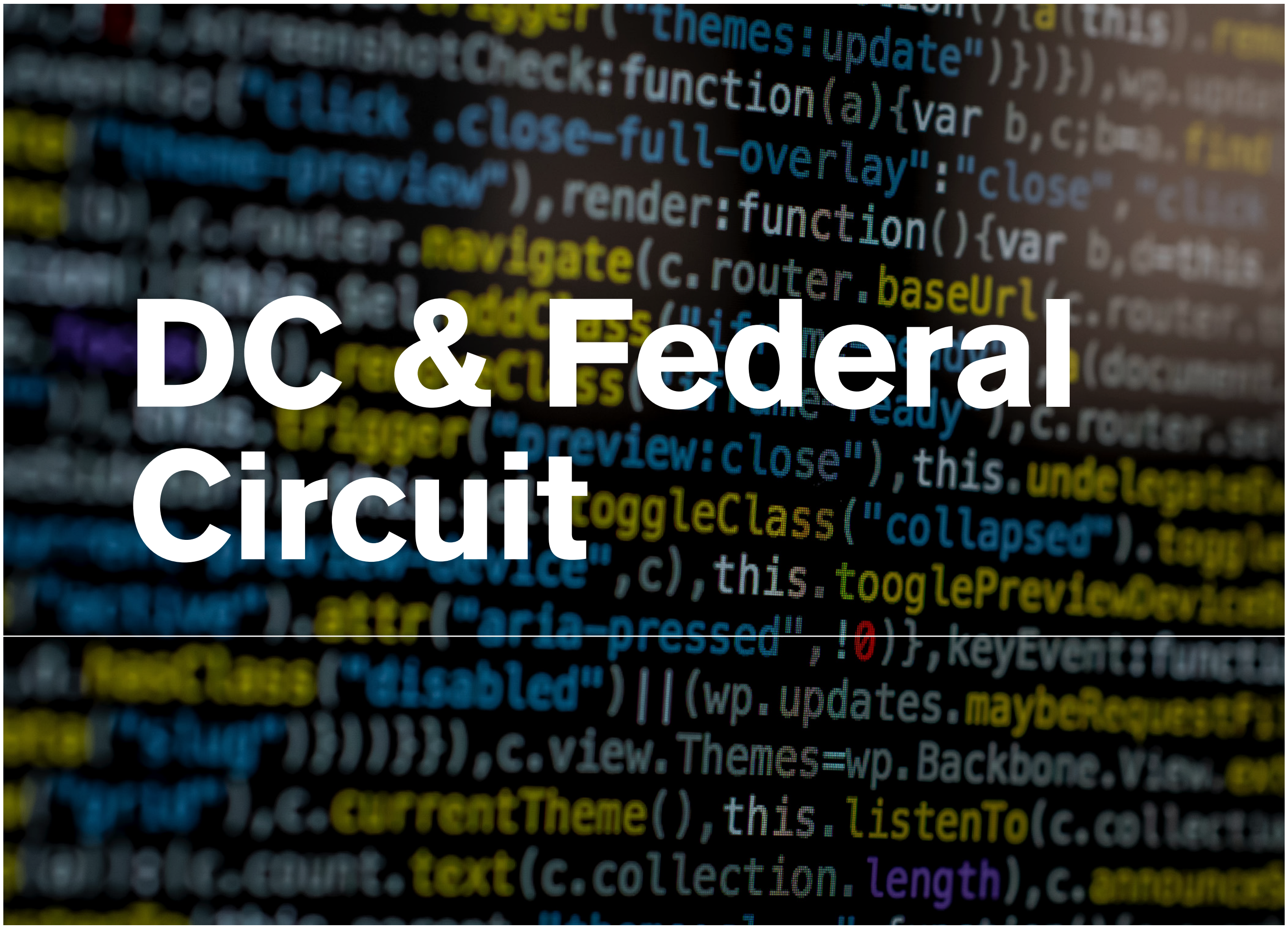
Non-compete provisions that prohibit an individual from servicing the clients of a former employer are not per se unenforceable under Georgia's Restrictive Covenant Act but instead will be enforced so long as they are reasonable and necessary to protect a legitimate business interest.

Details

— **Procedural Posture:** Following discovery, the parties filed cross-motions for summary judgment on plaintiff's claims against three former employees and their current employer for breach of non-compete and non-solicitation provisions in their employment agreements.

— **Factual Background:** Plaintiff, a provider of insurance brokerage services, filed suit against a former employee who left to start a competing insurance consulting firm and subsequently solicited two other employees of plaintiff to join his new company. Plaintiff alleged that the three employees subsequently contacted a number of its clients, some of whom had no prior relationship with the employees, and colluded to solicit and service plaintiff's clients for their own benefit. Defendants argued that their non-compete provisions were unenforceable under Georgia's Restrictive Covenant Act because they even client-based non-compete clauses were per se unenforceable under Georgia's common law.

— **Court's Decision:** The court rejected Defendant's arguments, holding that the enactment of the Restrictive Covenant Act in 2011 represented a "sea change" from Georgia's prior public policy disfavoring restrictive covenants. Defendants had argued that the Restrictive Covenant Act permitted only client-based non-solicitation provisions prohibiting employees from soliciting the business of former clients, but not client-based non-compete provisions prohibiting them from servicing former clients. In doing so, the court held that the Restrictive Covenant Act entirely abrogated the prior common-law rule that non-competes were per se unenforceable and held that such provisions will be enforced so long as they are reasonable in scope and duration.



DC & Federal Circuit

***Olaplex, Inc. v. L'Oreal USA, Inc.*, 855 F. App'x 701, 702 (Fed. Cir. 2021).**

Industry

Consumer products

Takeaway

Large scale jury awards, here over $22 million relating to trade secret misappropriation claims, can be reversed in the situation in which the Court determines that information presented by the Plaintiff does not support the legal requirements for a claim of misappropriation.

Details

— **Procedural Posture:** In May 2019, the parties participated in a jury trial on Olaplex's claims for, among other things, trade secret misappropriation. L'Oreal now appeals a judgement in excess of $22 million in favor of Olaplex on the trade secret misappropriation claims.

— **Factual Background:** Olaplex and L'Oreal are competitors in the professional hair care market. Beginning in 2015, L'Oreal began hiring away Olaplex's key employees. Eventually, L'Oreal began selling and marketing a similar product to Olaplex's hair bonding system. In presenting its case to the jury, Olaplex identified four groups of alleged trade secrets: (1) information in an Olaplex "unpublished patent" application; (2) "business information"; (3) "testing and know how"; and (4) "dead ends and trials and errors."

— **Court's Decision:** Whether a trade secret exists is a question of fact, but whether misappropriation occurred is a mixed question of law and fact. Here, the court found that the jury could not reasonably find sufficient proof for liability on any of the four identified categories of trade secrets. In particular, the information in the unpublished patent application was not a trade secret because it had previously been disclosed in other patents and prior art. With respect to the business information and financials, Olaplex failed to demonstrate that L'Oreal used the trade secrets without express or implied consent because an NDA entered into between the parties explicitly allowed them to use the information in its build v. buy analysis. As such, no reasonable jury could find misappropriation. Finally, with respect to "testing and know how" and "dead ends and trials and errors," the court reasoned that the evidence presented regarding misappropriation was far too general, and that any identification of the particular trade secrets by Olaplex failed to provide sufficient specificity for a jury to find misappropriation.

Renewable Fuels Association v. United States Environmental Protection Agency, 519 F. Supp. 3d 1 (D.D.C. 2021)

Industry

Energy

Takeaway

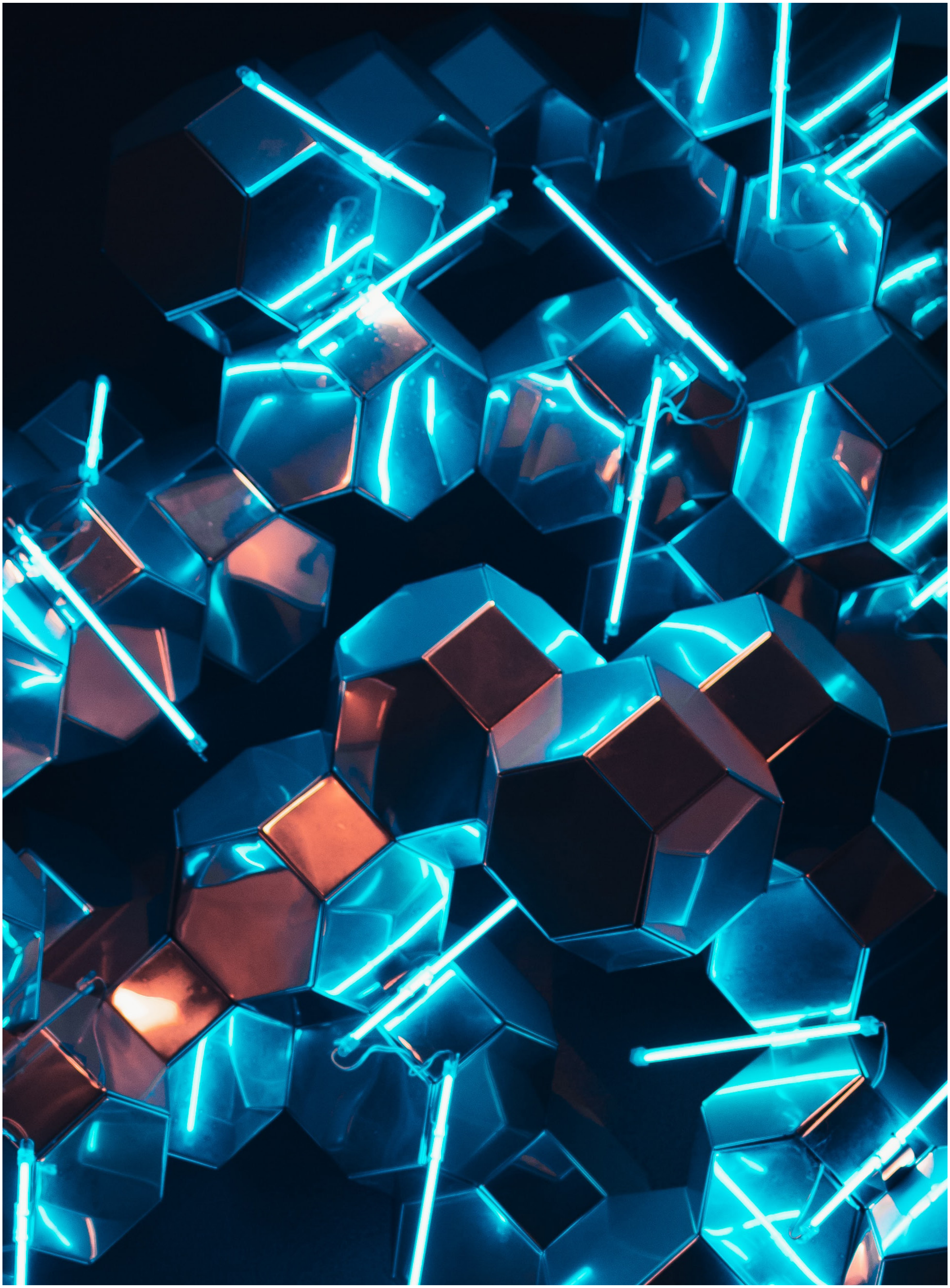
The government may be bound to protect bona fide confidential and trade secret information in a FOIA action.

Details

— **Procedural Posture:** Requester brought an action under FOIA to compel the EPA to disclose the name and location of oil refineries exempted from the renewable fuel requirements. Requesters moved for partial summary judgement which motion was granted in part and denied in part.

— **Factual Background:** Congress enacted the Renewable Fuel Standard program with the goal of forcing the market to produce increasing volumes of renewable fuel each year which also contained a statutory exemption for "small refineries." For years, the EPA did not release any information regarding its decisions to either grant or deny "small-refinery" exemptions. The EPA eventually released some information in support of its decisions regarding "small refineries" but made redactions to withhold "commercial or financial information obtained from a person" (aka trade secrets).

— **Court's Decision:** The word "confidential" does not impose a blanket requirement that the government provide an assurance of privacy in every case in which it asserts Exemption 4. The better approach would be that privately-held information is generally confidential absent an express statement by the agency that it would not keep information private, or a clear implication to that effect. In these circumstances, the court found that there were seven documents identified in the FOIA Request that involved information that was neither confidential nor trade secret in nature and, accordingly, granted Summary Judgment as to all other documents.



Index

About Us

Arent Fox LLP and Schiff Hardin LLP have announced a formal agreement to merge, effective March 1, 2022. Operating under the name ArentFox Schiff, the new firm will be home to more than 600 lawyers and policy professionals and serve as a destination for an international roster of corporations, governments, private individuals, and trade associations. **Learn More**.