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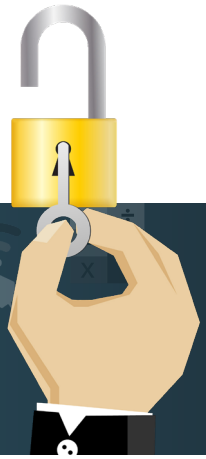

TOP TRADE SECRETS LAWYERS 2022

WHAT'S THE SECRET?

BY RANDY LUSKEY AND HALLIE GOLDBLATT

Has the plaintiff adequately identified the trade secrets it claims the defendant misappropriated? This question is often a subject of early motion practice in trade secrets. But a recent decision out of the Central District of California serves as a powerful reminder that a plaintiff's responsibility to identify trade secrets with particularity continues throughout the life of the litigation – and a failure to do so can up-end a favorable jury verdict for plaintiff.

In *Equate Media, Inc. v. Suthar*, Case No. 2:21-cv-00314, 2022 WL 2824973 (C.D. Cal. June 22, 2022), plaintiffs – internet marketing businesses that match customers to moving companies – sued a former IT Manager, her husband (a former project manager), and their new company. The defendants in the case allegedly used the plaintiffs' confidential information to create and operate their new venture, which directly competed with the plaintiffs and used the plaintiffs' "proprietary 'strategies to sell the same product offerings to the same top customers.'" *Id.*, at *2. While developing their new business, but before leaving plaintiffs' employ, the defendants attempted to delete all data from their company devices and downloaded the plaintiffs' customer database. *Id.* The plaintiffs sought damages and injunctive relief for violations of the Defend Trade Secrets Act and the California Uniform Trade Secrets Act and for breach of contract, among other claims. *Id.*

In May 2022, after a year of litigation, the case went to trial, and the jury returned a verdict for the plaintiffs, awarding each $1,391,958.08 from each defendant for misappropriation of trade secrets, plus additional damages on one plaintiff's breach-of-contract claim. *Id.*, at *1.

Before the jury verdict, however, defendants moved for judgment as a matter of law. *Id.* After the verdict, Judge R. Gary Klausner granted the defendants' motion. *Id.*, at *3.

In their complaint and at trial, the plaintiffs identified three categories of trade secrets. The complaint alleged that the defendants misappropriated: "(1) Plaintiffs' Marketing Data, including Keywords, Themes, and Conversion Rates that Plaintiffs have gathered over 15 years, (2) proprietary source code developed by Plaintiffs that created multiple systems working together that allowed Plaintiffs to run their online business, and (3) confidential customer and pricing information." (Compl. ¶ 127, ECF 1.) Similarly, at trial, the plaintiffs' founder testified that the defendants misappropriated "(1) GoogleAds data; (2) [a] customer list; and (3) software/source code." *Equate Media*, 2022 WL 2824973, at *3.

The question before the court was whether those trade secrets were clearly identified. As the court noted, "in all cases, a plaintiff must 'clearly

refer to tangible trade secret material' and 'not simply rely upon 'catchall' phrases or identify categories of trade secrets.'" *Id.* (quoting *InteliClear, LLC v. ETC Global Holdings, Inc.*, 978 F.3d 653, 658 (9th Cir. 2020)).

The court concluded that the plaintiffs' descriptions and evidence adduced at trial "failed to clearly identify a trade secret, eliminating any legally sufficient basis for a reasonable jury to have PAGE 43 - OCTOBER 5, 2022 - DAILY JOURNAL SUPPLEMENT found that any Plaintiff owned a particular trade secret." *Equate Media*, 2022 WL 2824973, at *3. Although they offered evidence that the defendants had access to password-protected information in the plaintiffs' GoogleAds account, the plaintiffs never identified "a particular keyword or quality score" and never specified which plaintiffs owned which keywords, if any. *Id.*, at *4. As to the customer list, the plaintiffs introduced a single exhibit showing top customers for two of the plaintiffs' firms. *Id.* But when asked whether the exhibit was the customer list that defendants allegedly misappropriated, the plaintiffs' founder testified that it was not; and the plaintiffs did not introduce any other allegedly misappropriated customer lists. *Id.* Regarding the source code, the plaintiffs argued that defendants misappropriated source code from their software, but "never distinguished their source code 'from matters of general knowledge in the trade or of special knowledge of those persons who are skilled in the trade.'" *Id.* (quoting *Altavion, Inc. v. Konica Minolta Sys. Lab'y, Inc.*, 226 Cal. App. 4th 26, 43–44 (2014)). Accordingly, the plaintiffs had not carried their burden of identifying a trade secret. *Equate Media*, 2022 WL 2824973, at *4.

Plaintiffs have appealed Judge Klausner's decision. When the Ninth Circuit weighs in, it will join other federal appellate courts that have recently considered the plaintiff's burden to identify trade secrets with particularity outside the pleading stage. In July 2022, the *Seventh Circuit decided REXA, Inc. v. Chester*, 42 F.4th 652 (7th Cir. 2022), affirming summary judgment for defendants on a claim under the Illinois Trade Secrets Act. Noting the high level of specificity required by case law and the ITSA, the Seventh Circuit held that no reasonable jury could find that REXA, Chester's former employer, had identified a "concrete" trade secret. *Id.* at 663–64. REXA asserted that defendants misappropriated a collection of "2002 Designs" and a prototype for an actuator, but failed to identify with specificity any secret aspect of the prototype. *Id.* REXA also conceded that several aspects of the prototype "were and are widely known" in the industry, and thus they were not "sufficiently secret" to merit protection. *Id.* Last year, in *Mallet and Company Inc. v. Lacayo*, 16 F.4th 364 (2021), the Third Circuit rejected similarly general assertions in vacating a preliminary injunction, finding that the plaintiff's allegations (and the district court's injunction) concerning 13 "general categories of business and technical information" were too broad and encompassed publicly available information. *Id.* at 382–83. Without specific identification of the trade secrets, the court could not assess plaintiff's likelihood of success on the merits. *Id.* at 386.

Notably, the court in Mallet commented that, in determining whether a trade secret has been adequately identified, district courts must "consider the degree of specificity necessary in light of … the stage of litigation," 16 F.4th at 383 n.22, suggesting that plaintiffs may face a higher burden as litigation progresses. Equate Media underscores that point – and offers valuable lessons for trade secret litigants. Plaintiffs should remember that surviving dismissal and discovery does not mean that they have carried their identification burden for all time. By contrast, at every stage of litigation, defendants should carefully scrutinize the alleged trade secrets and force plaintiffs to identify them with particularity, beyond generic categories or labels. A lack of particularity may be dispositive at summary judgment or trial, even if the claims survive a motion to dismiss. .

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