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PERSPECTIVE

How to avoid allegations of trade secret misappropriation in California

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Threatened Trade Secret Misappropriation

When departing a company, an executive, founder, or employee with access to trade secrets or confidential information may face legal allegations around whether they will use or disclose their former employer's trade secrets at a competitor. Under California law, employers can enjoin threatened trade secret misappropriation before actual misappropriation has occurred under certain circumstances – so departing employees must be prepared to defend against claims. CA Civ Code § 3426.2 (2021); 18 USC § 1836(b) (3) (A) (i) (I).

California's state and federal jurisprudence suggests that employees can best fend off a potential injunction by proving 1) that their former employer's trade secret claims are meritless, and 2) that the balance of the parties' equities favors denying an injunction. These cases present best practices for employees in these scenarios.

Likelihood of Success on the Merits

When an employee is defending against allegations of threatened trade secret misappropriation, their best arguments on the merits are that 1) the relevant information is not a protected trade secret and 2) they did not misappropriate information.

In order to prove that the relevant information is not a protected trade secret, the defendant should point to evidence that their former

employer did not regard the information as sensitive. Where a plaintiff employer has shared the relevant information with potential collaborators or investors without a guarantee of confidentiality, the court will not treat underlying information as a trade secret. *EL T Sight, Inc. v. Eyelight, Inc.*, 2020 U.S. Dist. LEXIS 245897 at *57-58 (C.D. Cal. Aug. 28, 2020). Similarly, a defendant should present evidence that the information is common knowledge or easily accessible within the industry. Where obtaining information which could be considered a trade secret – such as corporate strategy – was in reality neither difficult, time-consuming, nor expensive, a court is unlikely to find that it is a trade secret. *Id.*, at *57.

A defendant's next strategy should be to present evidence they did not misappropriate information. They may prove prior to their departure they destroyed any confidential information they possessed, disclaim knowledge of confidential information such as manufacturing technologies or processes, point to a lack of direct evidence of misappropriation, or request their new employers attest that they have not disclosed trade secrets from their former employers. *Whyte v. Schlage Lock Co.*, 101 Cal. App. 4th 1443, 1457-1458 (2002). In one case, a defendant emailed customer lists to their personal email addresses, but an injunction was denied because the information in those emails had not been shared with other people nor used to solicit customers for a competitor. See *Bakemark v. Navarro*, 2021 U.S. Dist. LEXIS 119405, at *27-30 (C.D. Cal. Apr. 24, 2021). Similarly, in *Aeg Holdco v. Vazquez*, the mo-

vant presented evidence departing employees downloaded thousands of company documents and subsequently launched a competing business, alleging defendants had used confidential information to poach its customers. 2021 U.S. Dist. LEXIS 203268, at *17-18 (C.D. Cal. Sept. 22, 2021). However, the court held defendants plausibly argued these downloads were merely automatic archiving, and plaintiffs were unable to provide direct evidence of a causal nexus between the downloads and use of trade secrets to solicit customers. *Id.*, *45, 55.

Balance of the Equities

Employees can argue that the balance of equities favors them, or that their former employers have failed to demonstrate that the balance of the equities favors injunctive relief. Courts are likely to grant injunctive relief where the burden on a defendant is temporary delay or minimal lost revenue and the harm faced by plaintiffs is perma-

nent – like significant lost market share. See *EL T Sight, Inc.*, at *82. Conversely, if a defendant has committed substantial capital to a venture that would be permanently lost were the injunction granted, courts are less likely to grant a preliminary injunction. *Id.*, at *82. Thus, defendant employees should emphasize any significant investments they've made in a venture that are unrelated to the trade secrets at issue, which would be jeopardized by an injunction.

Courts disfavor provisions that even somewhat restrict a departing employee's ability to pursue future employment. In *Aeg Holdco*, an employer sought to prevent its departing employee "from performing any services for any already solicited customers whose information is contained in the Trade Secret Information." *58-59. However, the employer could not prove that the customers had been solicited through misuse of trade secrets,

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and had refused to specify which customers' information was confidential. *Id.* In effect, the departing employee would've been barred from soliciting any of the employer's customers – restricting more than illegal use of trade secrets. *Id.* To defend against such a claim, a defendant should emphasize that an injunction would prevent them from beginning new employment or soliciting clients as they are entitled to without trade secret misuse.

Best Practices for Employees

To avoid a trade secret misappropriation allegation, departing employees should adopt these best practices:

- **Do:** Communicate to customers if you are leaving the company and where you will be working in the future.

- **Don't:** Use contact or pricing information from your employer's customer database to lure customers away.

- **Do:** Before you leave, check your employment contract to see what post-departure restrictions there may be, such as non-solicitation agreements or lengthy ongoing confidentiality obligations. If you're moving, be aware that many states have different rules.

- **Don't:** Download materials from your employers' databases right before or after you give notice – even if you think the information is not actually secret or belongs to

you. If you must, ask for permission first.

- **Do:** Have all your electronic devices purged of all company emails, files, documents, notes, and photos before you leave. Be sure to turn off all access to any storage provided by your employer, especially those that auto-backup. Check your iCloud storage.

- **Don't:** Email your personal account from your work account with any company information.