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As A Reminder That California Has Rejected The Doctrine Of Inevitable Disclosure, Court of Appeal Rules Knowledge Of Former Employer's Trade Secret Information Does Not By Itself Constitute Misappropriation

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Grounded in California's recognized hostility against restraints on competition, a recently published opinion from the California Court of Appeal, *Hooked Media Grp., Inc. v. Apple Inc.*[1], held that to establish trade secret misappropriation under California law,[2] it is not enough to show that the defendant has knowledge of the plaintiff's trade secrets. Rather, in addition to proving that the subject information constitutes a trade secret,[3] the plaintiff must prove that the defendant improperly acquired or actually used the information. The ruling should be of interest to both former and new employers, as we explain below.

Hooked Media Group ("Hooked"), a start-up company, sued Apple Inc. ("Apple") for alleged trade secret misappropriation and other claims arising from Apple's alleged hiring of three former Hooked employees—two engineers and a Chief Technical Officer—after acquisition negotiations between Hooked and Apple ended. Hooked's trade secret claim accused Apple and the former CTO of misappropriating: (1) technical information, such as algorithms and app recommendation strategies; and (2) information about the makeup and skills of Hooked's core engineering team. Apple successfully moved for summary judgment on Hooked's claims, and Hooked sought review of the trial court's order by the Court of Appeal. The Court of Appeal affirmed the trial court's decision.

The Court began its analysis by underscoring principles of free market competition, reasoning that "Apple was free to hire any of Hooked's employees at any time, and those employees were free to leave to work for Apple, without any compensation to Hooked." The "ultimate question" was whether Apple's conduct "transformed ordinary free market competition into an actionable legal wrong." The Court of Appeal ruled that Apple's conduct did not cross that line.

Hooked accused Apple of misappropriating "technical information, such as algorithms and app recommendation strategies[,]" offering evidence that:

- "its former employees were assigned to tasks at Apple similar to the work they did at

Hooked[;]"

- One former Hooked employee "produced a detailed plan for a recommendations system much like Hooked's version[]" "within weeks" of being hired by Apple; and "an expert opined that the source code for Apple's recommendations system was similar to the source code for Hooked's."

With respect to the first bullet point, the evidence relied on the inevitable disclosure doctrine, which California has rejected.

With respect to the second bullet, while inferential evidence can be used to prove misappropriation,[4] the Court found that Hooked's evidence only "suggest[ed] the engineers drew on knowledge and skills they gained from Hooked to develop a product for their new employer" which it found was specifically allowed under "California's policy favoring free mobility for employees[.]" Relying on California's long-standing rejection of the inevitable disclosure doctrine, the Court concluded "evidence that Apple hired engineers with knowledge of Hooked's trade secrets and that the engineers inevitably would have relied on that knowledge in their work for Apple does not support a claim for improper acquisition of a trade secret." In the Court's words, "mere possession of trade secrets by a departing employee [is] not enough for a UTSA violation."

Indeed, the Court found that Apple's "production of Hooked trade secret information" did not show "that Apple acquired the trade secrets by improper means" because "mere possession of information is not enough to establish improper acquisition of a trade secret."

Hooked also accused Apple of misappropriating "information about the makeup and skills of Hooked's core engineering team[,]" but the Court of Appeal found this information did not qualify as a trade secret because Hooked did not make reasonable efforts to maintain its secrecy, disclosing "much of the information" to Apple "even after Apple declined to sign a nondisclosure agreement."

The Court's opinion is the latest addition to a line of cases that reinforces employees' free market mobility. In California, a former employer must prove more than a new employer's mere possession of trade secret information to establish liability for trade secret misappropriation. For a viable trade secret misappropriation claim, a showing of improper acquisition and/or use beyond mere possession is required.[5]

The decision in *Hooked* underscores the need for would-be former employers to consider implementing the following potential practices with respect to the obligations of departing employees:

- Ensuring personnel are specifically informed what information the employer considers to be confidential, sensitive, and/or trade secret;

- Ensuring the return of all information claimed to be a trade secret; and

- Thoroughly eliminating a former employee's access to any trade secret information via any online portal at or before the date of termination.

Similarly, would-be new employers may wish to consider implementing the following potential practices with respect to on-boarding employees to reduce the risk of successful misappropriation by

former employers:

- Providing documented instructions not to rely on any former employer's trade secret information;
- Providing documented instructions to return any trade secret information to the former employer; and
- In the event an employee is discovered to be using the former employer's trade secret information, provided documented instructions to cease and desist, and ensure all necessary steps are taken to prevent any further use, and cure any past misuse, including but not limited to termination of the misuser.

Trade secret misappropriation impacts businesses across a variety of industries, and the consequences can be severe. A potential victim of trade secret theft, or the accused, should swiftly consult experienced litigation counsel.

FOOTNOTES

[1] No. H044395, 2020 WL 5848363 (Cal. Ct. App. May 28, 2020), *reh'g denied* (June 19, 2020), *publication ordered* (Sept. 30, 2020), *review granted and cause transferred sub nom. Hooked Media Grp. v. Apple*, No. S263198, 2020 WL 5876700 (Cal. Sept. 23, 2020). [The CA Supreme Court ruled "At the request of the Court of Appeal, review is ordered on this court's own motion. The cause is transferred to the Court of Appeal, Sixth Appellate District, for further proceedings. Plaintiff Hooked Media Group, Inc.'s petition for review is denied." *Hooked Media Grp. v. Apple*, No. S263198, 2020 WL 5876700, at *1 (Cal. Sept. 23, 2020). I suspect the "further proceedings" refer to a determination of the employee-defendant's liability

[2] Under the California Uniform Trade Secrets Act (Cal. Civ. Code § 3246 et seq.).

[3] I.e., that the information derives economic value from its secrecy and has been the subject of reasonable efforts to protect its secrecy.

[4] *See, e.g., Ajaxo Inc. v. E*Trade Grp., Inc.*, 135 Cal. App. 4th 21, 50 (2005) ("A party may rely upon 'reasonable inferences' from the evidence . . .."); *Sargent Fletcher, Inc. v. Able Corp.*, 110 Cal. App. 4th 1658, 1673 (2003) ("The plaintiff can introduce a variety of evidence to raise an inference of improper use…").

[5] Misappropriation can also be established by improper disclosure.

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