



Forewarned Is Forearmed - The Value Of Advanced Planning And Pre-Suit Investigation In The Protection Of Trade Secrets

Protecting trade secrets can be a daunting task for any company. Identifying items that merit trade secret protection, determining appropriate protocols to safeguard their secrecy, knowing when you have a meritorious trade secret dispute, and understanding the requirements for sustaining an effective trade secret lawsuit all can present difficult challenges. The state-based nature of trade secret law and the lack of uniformity among states in the content and interpretation of trade secret statutes add to these challenges. Despite these challenges, trade secret litigation remains a critical tool in the effort to preserve the value of any company's intellectual property. One key to the successful use of this tool is to engage in proper pre-suit investigation and preparation before filing a lawsuit.

A. Know The Law -- Trade Secret Law Is State Specific.

While trade secret laws vary state to state, the law of most states, whether by common law or statute, is like the Uniform Trade Secrets Act (UTSA). The UTSA defines a "trade secret" as information that:

- (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and
- (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

UTSA § 1(4).





Cases interpreting the precise boundaries of trade secret protection reach varying conclusions regarding what types of information can be protected as “trade secrets.” For example, some states, such as Minnesota, are very hesitant to allow a customer list to be classified as a trade secret, even where the secrecy of the list is carefully guarded. *LaserMaster Corp. v. Sentinel Imaging*, 931 F. Supp. 628, 637 (D. Minn. 1996); see also *NewLeaf Designs, LLC v. BestBins Corp.*, 168 F. Supp. 2d 1039, 1043-44 (D. Minn. 2001) (customer list not a trade secret); *Blackburn, Nickels & Smith, Inc. v. Erickson*, 366 N.W.2d 640, 645 (Minn. Ct. App. 1985) (same).

In addition to defining what is or is not a “trade secret,” the UTSA defines what constitutes a “misappropriation” of trade secrets. Generally, misappropriation occurs when a person (1) acquires the trade secret of another with knowledge that the secret was acquired by improper means; or (2) discloses or uses the trade secret of another (a) without the other person’s consent, and (b) with knowledge that (i) improper means was used to obtain knowledge of the secret, or (ii) the secret was obtained by accident or mistake. UTSA § 1(2).

In most states, actions may be brought for actual or threatened misappropriation. UTSA § 2. Actions brought to enjoin a threatened misappropriation are commonly referred to as actions for “inevitable disclosure” of trade secrets. Some states, including California, have rejected the doctrine of inevitable disclosure as contrary to public policy. *Whyte v. Schlage Lock Co.*, 101 Cal. App. 4th 1443, 1447, 1463 (Cal. Ct. App. 2000); *Danjaq LLC v. Sony Corp.*, 50 U.S.P.Q.2d 1638, 1640 n.1 (C.D. Cal. 1999). These states have determined that





the inevitable disclosure doctrine impermissibly imposes an after-the-fact covenant not to compete on individuals who never agreed to such a covenant. *Id.* In the states that do recognize the doctrine of inevitable disclosure, the assertion of the doctrine is usually accompanied by a motion for a temporary restraining order and/or preliminary injunction. This is because the primary purpose of the inevitable disclosure doctrine is to enjoin a perceived threat of disclosure, and typically in such cases time is of the essence.

B. Understand The Importance Of Pre-Suit Investigation.

While the contours of trade secret law vary state to state, the success of a trade secret misappropriation action in any state will be determined largely by the quality of pre-suit investigation and preparedness. These two tools are important for a number of reasons.

First, early investigation allows for the best possible assessment of the merits of the potential claims before the disruption and expense of litigation are undertaken. Without such an assessment, the advisability of filing suit and the potential value of the claims cannot be determined.

Second, where preliminary injunctive relief is sought, a likelihood of success on the merits of the claim will need to be established at the beginning of the case. In order to establish a likelihood of success on the merits, the evidence supporting the existence of one or more trade secrets and the evidence supporting the improper acquisition and/or use of those trade secrets will need to be developed and presented.





Third, many jurisdictions, either by statute or case law, require a trade secret plaintiff to specify the alleged trade secrets at issue in the case at a very early stage. See, e.g., *DeRubeis v. Witten Techs., Inc.*, Case No. 1:06-CV-807, 2007 U.S. Dist. LEXIS 30047 (N.D. Ga. Apr. 23, 2007); *Automed Techs., Inc. v. Eller*, 160 F. Supp. 2d 915, 926 (N.D. Ill. 2001); *Leucadia, Inc. v. Applied Extrusion Techs., Inc.*, 755 F. Supp. 635, 637 (D. Del. 1991); *Universal Computer Sys., Inc. v. Dealer Solutions, L.L.C.*, 183 S.W.3d 741, 745 & n.1 (Tex. App. 2005); and CAL. CODE CIV. PROC. § 2019.210. Often, this specification is a prerequisite to the trade secret plaintiff's ability to obtain discovery from the defendant. *Id.* These statutes and cases require plaintiffs to provide more than just general categories of information in which unnamed trade secrets can be found. Rather, the alleged trade secrets at issue must be identified with "reasonable particularity." *DeRubeis*, 2007 U.S. Dist. LEXIS 30047, at *14-15; *Automed Techs.*, 160 F. Supp. 2d at 926; CAL. CODE CIV. PROC. § 2019.210. An effort should be made to identify the alleged trade secrets at issue with sufficient particularity to specify what is allegedly "secret" as compared with what would be public knowledge.

See, e.g., *Porous Media Corp. v. Midland Brake Inc.*, 187 F.R.D. 598, 600 (D. Minn. 1999); *Utah Med. Prods., Inc. v. Clinical Innovations Assocs., Inc.*, 79 F. Supp. 2d 1290, 1312 (D. Utah 1999); and *Imax Corp. v. Cinema Techs., Inc.* 152 F.3d 1161, 1164-65 (9th Cir. 1998). Not only will this effort assist in satisfying discovery obligations, but it also will go a long way toward preparation of the ultimate case for trial.



Fourth, it is almost always in the interest of a trade secret plaintiff to achieve an expeditious resolution to a trade secret case, especially where preliminary injunctive relief is not in place. Early investigation and preparation can ensure that you are ready to move forward with the case at a fast pace. It also ensures you are armed with the knowledge you need to have an informed early settlement discussion or mediation.

C. Know Your Case -- Invest In A Robust Pre-Suit Investigation.

Having established the importance of early investigation and preparation in a trade secret case, the question remains: what investigation and/or preparation should be done?

The precise answer to this question will be unique to the factual circumstances of each individual situation. Nevertheless, the following issues merit consideration in every case.

First, determine what state's law will govern your dispute and obtain a detailed understanding of that state's trade secret law. If there are multiple possibilities, make sure you understand the trade secret laws of each state whose law may be found to apply. In some cases, an early understanding of the differences among the trade secret laws of the various states may influence your choice of forum for your action.

Second, determine the exact nature of your claimed secret or secrets. In other words, ask "what *exactly* is it that we claim we own that is *not* known by others?" Some level of investigation may be required to understand what information is in the public domain and then



to separate it from the information that is truly secret.

Third, determine whether your identified secrets qualify as “trade secrets” under the law that will apply to your action. In making this determination, it is important to consider what independent economic value, actual or potential, is derived from the secret and whether you have exercised appropriate controls to maintain its secrecy. It is also important to determine whether the applicable law excludes from trade secret protection the type of information, i.e., customer lists, that you intend to claim.

Fourth, develop your evidence of misappropriation. In other words, develop the evidence to show that your secrets actually were taken or that they actually were used.

Evidence that secrets were taken can be developed, for example, through forensic analysis of electronic media. Departing employees who have improperly absconded with their employer's electronic information typically create an electronic trail of this activity that can be fleshed out by such analysis. Forensic analysis may be able to demonstrate, for example, that a departing employee downloaded confidential files or e-mailed confidential documents to others or to their personal e-mail account.

Evidence that secrets were used may also be developed through pre-suit investigation, though this can be harder to show directly. Circumstantial evidence of use, however, may be developed through reverse engineering a product you believe was created using your secrets. Moreover, in states customer lists are protectable, one way of determining whether your list





has been used is to include a false entity on the list. The false entity looks like a real customer, but the entity does not really exist and any contacts made to the false entity are directed to you. If you receive an advertisement directed to the false entity, then you know that your list has been compromised.

Trade secrets can be valuable assets to any company. When misappropriation occurs or is threatened, hopefully the tools discussed herein will help you meet the enforcement challenge.

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