As companies are increasingly trying to protect information by designating it as a trade secret, courts are increasingly trying to resolve litigation disputes relating to trade secrets misappropriation issues. Trends have emerged from these court cases, further defining the limits of trade secrets protection and attempting to carve out uniform rules concerning such protection. This article highlights some of the most interesting and recent developments in Trade Secrets Law.
RECENT DEVELOPMENTS IN TRADE SECRETS LAW

R. MARK HALLIGAN*

"Trade secret law encourages the development and exploitation of those items of lesser or different invention than might be accorded protection under the patent laws, but which items still have an important part to play in the technological and scientific advancement."1 Thirty years has done little to sap the strength and relevance of Chief Justice Burger's words. Indeed, there is no secret behind the spirit and policy underlying trade secrets law. What often remains hidden, however, is the myriad of emerging trends and developments that imbue trade secrets law. Trade secrets law, like many issues in the law, evolves with the vicissitudes of modern life. More than ever, companies are cognizant of the need to protect information and accordingly, litigation involving trade secrets abounds.2 This article will flush out today's burgeoning trends in trade secrets law through the author's experience and an analysis of recent case law.

I. CONSTITUTIONAL ISSUES

Constitutional issues are beginning to appear in trade secrets cases.3 This section addresses how courts analyze constitutional issues surrounding trade secrets cases, such as a party's ability to have a jury trial and the courts ability to reduce a jury determined damage award — remittitur.4 The first case dealing with constitutional trade secrets issues, Evans v. General Motors Corp., specifically addresses the right to a jury trial.5 In that case, the trial judge had decided that a bench trial was appropriate.6 The plaintiffs, however, objected,7 claiming they were entitled to a trial by jury under the Connecticut constitution.8 The Supreme Court of Connecticut concluded that a party has a constitutional right to a jury trial for trade secret claims where damages are sought.9 The court also found that jury trials were conducted by English courts of law as early as 1818 when the Connecticut constitution was adopted10 — a finding that supported the conclusion that jury trials for trade secrets

* R. Mark Halligan, Esq. is a principal in the Chicago intellectual property firm of Welsh & Katz, Ltd., and a member of the adjunct faculty at The John Marshall Law School where he teaches trade secrets law and trade secrets litigation. Mr. Halligan is the sponsor of the TRADE SECRETS HOME PAGE on the Internet. See www.rmarkhalligan.com. Mr. Halligan is Chairman of the American Bar Association Intellectual Property Law Section Trade Secrets Committee, Vice Chair of the Trade Secrets Committee of the American Intellectual Property Law Association, and Co-Chair of the Trade Secrets Licensing Subcommittee of the Licensing Executives Society. Special thanks to Sherry Rollo who worked on the edits.

3 See generally Braun Med., Inc. v. Rogers, 163 F. App'x 500 (9th Cir. 2006); Evans v. GM Corp., 893 A.2d 371 (Conn. 2006).
4 See Ismail v. Cohen, 899 F.2d 183, 186 (2d Cir. 1990) ("A remittitur, in effect, is a statement by the court that it is shocked by the jury's award of damages.").
5 See Evans, 893 A.2d at 379 ("It is proper to consider whether the right to a jury trial on trade secret claims is guaranteed under the Connecticut constitution.").
6 Id. at 375.
7 Id. at 376.
8 Id.
9 Id. at 384 ("An examination of CUTSA and the Uniform Trade Secrets Act therefore supports our conclusion that trade secret protection was available under the common law and, as a result, the plaintiffs have a right to a jury trial on their trade secret claims seeking damages.").
10 Id. at 381 ("We thus conclude . . . that, although plaintiffs in the early nineteenth century could seek injunctive relief in courts of equity to restrain defendants from misappropriating business secrets, English courts of law during that time also conducted jury trials on trade secret claims seeking damages.").
were permissible.\textsuperscript{11} Furthermore, the court stated that Connecticut protects the right to a jury trial, and this right is mandatory and not discretionary.\textsuperscript{12}

\textit{B. Braun Medical, Inc. v. Rogers} is another case that dealt with the issue of a litigant's ability to have a jury trial in a trade secrets case.\textsuperscript{13} The court in \textit{B. Braun Med.} analyzed whether a trial court has the ability to reduce damages awarded by a jury.\textsuperscript{14} The district court disagreed with the monetary verdict that the jury returned and subsequently reduced the damages award.\textsuperscript{15} The Court of Appeals for the Ninth Circuit reversed the remittitur, holding that the reduction was a violation of the Seventh Amendment of the United States Constitution.\textsuperscript{16} Specifically, the court analyzed the Seventh Amendment's restriction that "no fact tried by a jury, shall be otherwise re-examined in any Court of the United States, than according to the rules of the common law."\textsuperscript{17} The court noted that the district court's remittitur was not permitted because it was ordered without affording the opposing party the option to a new trial.\textsuperscript{18} The above examples demonstrate the emerging facet of constitutional trade secrets law and forecast significant litigation to come.

II. ELECTRONIC EVIDENCE DISCOVERY

The specialized field of trade secrets law and intellectual property in general, continuously evolves. As this evolution occurs, lawyers continue to confront new problems. One of these problems involves electronic evidence discovery. With electronic discovery, a party can often prove up a trade secrets case with an EnCase image\textsuperscript{19} of the opponent's computer. This is especially significant when a former employee leaves data on a computer. A common scenario begins when a terminated employee keeps his personal computer loaded with trade secrets.

One option might be to give the computers to an attorney if the former employee is faced with a trade secrets misappropriation lawsuit. The former employee's attorney could then keep the computer and claim there was no misuse of the information because all the computers were in the possession of the former employee's attorney. However, \textit{Haught v. Louis Berkman LLC}, a recent case from the Northern District of West Virginia, provides an example of when disposing the material by giving it to a third party attorney may not be the

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{11} See \textit{id.} at 380. The court determined a party's right to a jury trial, under the Connecticut constitution, is determined by comparing the action at issue to a similar action available for a jury trial in 1818 when the Connecticut constitution was adopted. \textit{Id.} Essentially, the court must inquire whether the course of action is rooted in the common law, and, if so, whether the remedy involved at common law was one sound in law or equity. \textit{Id.} Therefore, the court stated, "[i]n determining whether an action existed at common law and involved a legal remedy, we look for guidance to Connecticut case law, to the common law of England and to federal and state jurisdictions that have considered the question." \textit{Id.}
\item \textsuperscript{12} See \textit{id.} at 379 (citing the Connecticut constitution for the proposition that if a right to a jury trial existed at the time of its adoption, that right would remain intact).
\item \textsuperscript{13} See \textit{Braun Med., Inc. v. Rogers, 163 F. App'x 500} (9th Cir. 2006).
\item \textsuperscript{14} See \textit{id.} at 506–07.
\item \textsuperscript{15} See \textit{id.} at 503 ("Following post-trial motions, the district court reduced the $16 million compensatory damage award to $5 million.").
\item \textsuperscript{16} \textit{Id.} at 507 ("To the extent that the district court substituted its own judgment as to the damages that should have been awarded, it violated the Seventh Amendment. The jury award for compensatory damages must be reinstated.").
\item \textsuperscript{17} \textit{Id.} at 506 (citing U.S. CONST. amend. VII).
\item \textsuperscript{18} \textit{Id.} ("A court violates the Seventh Amendment's guarantee of a jury trial by ordering a remittitur without affording the [affected] party the option of a new trial.") \textit{Id.} The court continued, "[i]f a court determines that a jury's damages award is excessive after viewing the evidence in the light most favorable to the prevailing party, it may grant defendant's motion for a new trial or deny the motion conditional upon the prevailing party accepting a remittitur." \textit{Id.} The court summarized the law stating, "[t]he prevailing party is given the option of either submitting to a new trial or of accepting a reduced amount of damage which the court considers justified." \textit{Id.}
\item \textsuperscript{19} EnCase software (sold by Guidance Software) is the standard electronic evidence forensic tool now used to preserve evidence by creating a "snapshot" of a computer at a given point in time.
\end{itemize}
\end{footnotesize}
best course of action. In Haught, the court held that providing information containing trade secrets to third party attorneys constituted an unauthorized disclosure. Ironically, the former employee may have been better off simply throwing the information in the garbage, and in News America Marketing In-Store, Inc. v. Marquis, the employee did just that.

In Marquis, the employee threw out the information in the form of paper documents. The court found there was never any harm to the plaintiff employer and, therefore, there was no misappropriation by the defendant employee. These results are seemingly inconsistent with the tendency to want to prevent spoliation in the electronic computer environment. Of course, the safest approach is not to retain any proprietary documents of the former employer and to return all information before termination.

Another issue is account transfer forms. Specifically, a question exists as to whether the account transfer forms, filled out in preparation of the employee's change in location, must be considered. The Eastern District of Michigan answered this question when it held that similar measures were not actionable because the employer's client information did not qualify as a trade secret. The court also did not find tortious interference. Fiduciary duty was not litigated, and the court held there were no actionable issues, despite the employee filling out account transfer forms prior to leaving employment. The court based its holding on the doctrine stating one can prepare to compete as long as one does not actually start the effective process of competing before leaving the company.

III. IDENTIFICATION WITH PARTICULARITY

This section considers the question of how detailed the description of a trade secret needs to be in a complaint. The requirement that a party identify trade secrets with particularity before discovery is a statutory requirement in California and under the common law of other jurisdictions. The underlying concept is that a defending party cannot adequately defend against a case without knowing what the client is alleged to have stolen or misappropriated. In recent years, the trend has been to require detailed disclosures before discovery begins. This was the norm until one plaintiff, requesting a writ of mandamus, was granted.

---

21 Id. at 784 ("Plaintiff Leonard breached her duty of confidentiality because she disclosed confidential information to a third party, her attorneys."). See also Zahodnick v. IBM, 135 F.3d 911, 915 (4th Cir. 1997) (holding confidential information cannot be supplied to a third party attorney).
23 Id.
24 See id. (finding plaintiff could not demonstrate harm where the defendant employee never used the trade secret).
26 Id. at 699.
27 Id. at 700–01.
28 See id. at 700 ("Preparations, of themselves, do not support a breach of fiduciary duty sufficient to support an injunction.").
30 In any action alleging the misappropriation of a trade secret under the Uniform Trade Secrets Act (Title 5 (commencing with Section 3426) of Part 1 of Division 4 of the Civil Code), before commencing discovery relating to the trade secret, the party alleging the misappropriation shall identify the trade secret with reasonable particularity subject to any orders that may be appropriate under Section 3426.5 of the Civil Code.
31 See, e.g., AutoMed Techs. Inc. v. Eller, 160 F. Supp. 2d 915, 926 (N.D. Ill. 2001) (noting the court will generally require a party to identify "with reasonable particularity the matter which it claims constitutes a trade secret, before it will be allowed (given a proper showing of need) to compel discovery of its adversary's trade secrets.").
appealed his case to an appellate court in California. In this case of first impression regarding trade secrets discovery, the court construed the statutory requirement to require only that a plaintiff designate the alleged trade secrets at issue to get the proceedings started, but it was never meant to require the kind of detailed disclosures that would occur after discovery. The court stated in pertinent part:

The letter and spirit of [Cal. Code Civ. Proc.] section 2019.210 require[s] the plaintiff, subject to an appropriate protective order, to identify or designate the trade secrets at issue with sufficient particularity to limit the permissible scope of discovery by distinguishing the trade secrets from matters of general knowledge in the trade or of special knowledge of those persons . . . skilled in the trade.

The court continued, and defined “reasonable particularity” as requiring the plaintiff to show the court that the provided detail is “fair, proper, just and rational... under all of the circumstances.” Reasonable particularity also requires that the plaintiff “identify [the] alleged trade secret in a manner that will allow the trial court to control the scope of subsequent discovery, protect all parties’ proprietary information, and allow them a fair opportunity to prepare and present their best case or defense at a trial on the merits.” Consequently, depending on the alleged trade secrets at issue in each case, the degree of particularity will differ. Furthermore, the trial court can consider relevant evidence in determining the adequacy of the description of the trade secrets. However, the proponent of the alleged trade secret does not need to describe the material “with the greatest degree of particularity possible, or to reach such an exacting level of specificity that even its opponents are forced to agree the designation is adequate. . . . What is required is not absolute precision, but ‘reasonable particularity.’” Using these definitions and principals as guides, the court granted the writ and vacated and remanded to the trial court. This demonstrates that the courts are beginning to relax requirements for trade secret identification at the early stages of the lawsuit.

In Roup v. Superior Court of Los Angeles County, the defendant was given notice for a deposition, and he appeared. However, when the plaintiff’s counsel began to ask questions, the defendant’s counsel stopped the deposition, instructing his client not to answer any more questions because the plaintiff had failed to comply with the California UTSA statutory requirements to identify the trade secrets with reasonable particularity before commencing discovery. The court granted sanctions against defense counsel for stopping the deposition, and subsequently the case went up on appeal. The appellate court reversed, because the plaintiff had not identified his trade secrets with particularity, and there was just cause for stopping the deposition under the California statute.

31 See Advanced Modular Sputtering, Inc. v. Super. Ct., 33 Cal. Rptr. 3d 901, 905 (Ct. App. 2005) (“AMS filed a petition for writ of mandate to reverse that portion of the trial court's order which permits Sputtered Films to conduct discovery on all causes of action other than its cause of action under the UTSA for misappropriation of trade secrets.”).
32 Id. at 903 (“This is a first impression trade secret civil discovery case.”).
33 Id. at 907–09.
34 Id. at 907.
35 Id. at 908.
36 Id.
37 Id.
38 Id.
39 Id.
40 Id.
42 Id.
43 Id. at *4.
IV. IDENTIFICATION WITH STANDING

Standing to bring a trade secrets case is an issue often ignored. In *RPM, Inc. v. Oatey Company*, the court announced a rule for determining whether a plaintiff has standing to bring a trade secrets case. The court held in order for a plaintiff to have standing to bring a trade secrets case, the plaintiff must either: own the trade secrets; have possession of the trade secrets; or have a right to control the trade secrets. Furthermore, the plaintiff must demonstrate the active steps taken to protect and maintain the secrecy of the trade secrets. Therefore, if one has a right to control his trade secrets, but is not able to demonstrate the exercise of any active steps to protect those trade secrets, he does not have standing.

V. DISPLACEMENT DOCTRINE

Another recent trend shows a retreat from the statutory displacement of other causes of action relating to trade secrets misappropriation. If a cause of action “conflicts” with the trade secrets misappropriation claim then it is “displaced” or “preempted.” Recently, courts are beginning to first determine whether the information rises to the level of a trade secret before determining whether a cause of action should be displaced. If proof of a “trade secret” is not necessary for recovery under the other causes of action, then there is no displacement by the Uniform Trade Secrets Act.

VI. UNJUST ENRICHMENT AND BREACH OF FIDUCIARY DUTY

Unjust enrichment claims are making a comeback in trade secrets law. Unjust enrichment claims are another way for a plaintiff to seek recovery for ill gotten gains. Courts are now looking at a plaintiff's description of the alleged trade secret and stating that, if the information at issue does not rise to the level of a trade secret, there is no trade secrets claim. However, an unjust enrichment claim arises when there is a misuse of the information at issue under circumstances where it would be unjust for the defendant to have obtained the benefit without having paid for it. For example, in *APG, Inc. v. MCI Telecommunications Corp.*, the First Circuit noted trade secrets comprise, “information that is ‘not . . . readily ascertainable by proper means by . . . other persons who can obtain economic value from its disclosure or use.’” In that case, the court held the information did not qualify as a trade secret, because the information at issue was obtainable through normal business methods. However, the court did permit an unjust enrichment claim.
because the defendant received a benefit — access to a certain customer account. \(^{52}\) Therefore, under the circumstances, the plaintiff had a viable unjust enrichment claim against the defendant for retaining a benefit without paying for it. \(^{53}\)

VII. ABSENCE OF CAUSATION

Another recent development in trade secrets law relates to the causation claim. The reasoning is that even if liability exists, one must nonetheless show a proximate causal relationship between that liability and any damages. Cases frequently arise where liability can be found, but the nexus between the liability and the damages is absent, precluding a finding of causation. Generally, the defendants win these cases.

Furthermore, focusing on the remedy-side is the preferred strategy for defendants in trade secrets cases, because that way the plaintiff could win the battle but lose the war. For example, if things are not progressing well on the liability side for a defendant in a case where an injunction is sought by the plaintiff, a wise approach would be for the defendant to develop evidence in the record demonstrating the product at issue could have been independently developed, without reference to the trade secrets, in a short period of time, say six months. So, once an injunction is granted, the duration of the injunction will be very limited because this evidence is in the record.

From a damages perspective, it is possible to eliminate proximate cause. For instance, even if misappropriated documents were found on an employee’s computer, there may be no direct and proximate causal relationship to the loss of business or to the things that the plaintiff claims resulted in damages. The courts are now examining the causation issue with a stern eye. It is often difficult to connect a piece of information, not generally known in the trade and to which one had unauthorized access, to actual damages. Therefore, one can win these cases by both focusing on causation and showing its absence. Two examples that highlight the successful application of this strategy are Do It Best Corp. v. Passport Software, Inc.\(^{54}\) and MicroStrategy, Inc. v. Business Objects, S.A.\(^{55}\) In both of those cases, the courts found that there was no proximate causation, and did not award the plaintiff damages. \(^{56}\)

VIII. PROTECTING TRADE SECRETS THROUGH CONTRACT LAW

Contracts should be used more often to identify and protect trade secrets rights. The Uniform Trade Secrets Act (“UTSA”) represents the statutory “default” position of the parties absent a contract between the parties. Courts now assert contracts that specify the procedures for protection, identification, and classification of trade secrets rights can trump a UTSA claim. Fox Controls, Inc. v. Honeywell, Inc. provides an example where a confidentiality agreement existed between the parties. \(^{57}\) In that case, the plaintiff claimed it disclosed trade secrets to the defendant who in turn disclosed the same information to the plaintiff’s competitors. \(^{58}\) The defendant argued the confidentiality agreement called for the

\(^{52}\) Id. at 306. “The evidence of record thus appears sufficient to allow a finding that all three elements of the unjust enrichment claim were met: (1) a benefit (access to the CVS account) (2) of which the defendant was aware, and (3) that was accepted in circumstances in which failure to pay would be inequitable.” Id.

\(^{53}\) Id.


\(^{56}\) Do It Best Corp., 2005 WL 743083, at *16 (“Passport offers numerous facts that purportedly establish a violation of the ITSA, but there is nothing to tie that alleged violation to DIB’s provision of maintenance services to its members.”); MicroStrategy, 429 F.3d at 1358.


\(^{58}\) Id. at *6.
plaintiff to designate in writing any document the plaintiff considered to contain a trade secret as confidential or proprietary. The plaintiff countered by arguing that there were implied obligations of confidentiality because the defendant knew or had reason to know the disclosed information contained trade secrets. The court held that, while there may have been implied duties of confidentiality, the contract mandated that if the plaintiff considered a document to contain a trade secret, the plaintiff was to mark the document "confidential." The plaintiff failed to adhere to the terms of the contract, and accordingly, the court dismissed the trade secrets claim.

IX. SPOLIATION

Another trend in trade secrets law is the application of the spoliation doctrine. The doctrine states the court may infer misappropriation from defendant's destruction of evidence. Indeed, a plaintiff can win by either finding the files that are the basis of the claim in the defendant's possession or alternatively, by proving that the files have been intentionally destroyed. Spoliation of evidence supports an inference of misappropriation under the theory that a person would not have destroyed or deleted a document if that person did not believe the document supported a finding of misappropriation. Because trade secrets are an amorphous intellectual property right and a question of fact for the jury, the inference of misappropriation is often enough to win the case.

In Advantacare Health Partners, LP v. Access IV, Inc. the court addressed the issue of spoliation. In that case, the first thing the defendant did after the plaintiff initiated suit was destroy all of the files on his computer. When the court discovered what the defendant had done, it imposed sanctions. The court then entered an order stating the lawyers could create an image of everything remaining on the computer. However, the defendant left a

---

59 Id. at *29.
60 Id. at **15-16.
61 Id. at **32-33.
62 Id. at *33.
63 See, e.g., Jay E. Rivlin, Note, Recognizing an Independent Tort Action Will Spoil A Spoliator's Splendor, 26 Hofstra L. Rev. 1003, 1004 ("[T]he pervasiveness of spoliation is alarming and quite possibly a regularly occurring problem in every attorney's practice."). See also Select Med. Corp. v. Hardaway, 2006 U.S. Dist. LEXIS 15326, **28-29 (D. Pa. Mar. 24, 2006) (defining spoliation as "the destruction or significant alteration of evidence, or the failure to preserve property for another's use as evidence in pending or reasonably foreseeable litigation.").
65 Id. at 286 ("Where a party has deliberately destroyed evidence, a trial court will indulge all reasonable presumptions against the party.").
66 Id. However, spoliation requires bad faith. See Farmer v. Iowa, C99-132-MWB, 2001 U.S. Dist. LEXIS 17029, **60-61 (D. Iowa Apr. 27, 2001) ("[C]ourts almost universally have held spoliation instruction is not warranted in the absence of bad faith."). The burden shifts to the other party if willful destruction of evidence is shown. United States ex rel. Judd v. Maloy, 3:03-CV-241, 2006 U.S. Dist. LEXIS 63465, *33 (D. Ohio Sept. 6, 2006) ("If the plaintiff shows that the defendant willfully destroyed evidence, the burden shifts to the defendant to persuade the trial court that the plaintiff was not prejudiced by the destruction of evidence."). Intentional destruction is defined as "the removal of evidence for the purpose of rendering it inaccessible or useless to another party." Id. at *32.
67 See, e.g., Zubulake v. UBS Warburg LLC, 220 F.R.D. 212, 216 (S.D.N.Y. 2003) ("Inherent in this [spoliation] definition is the failure to preserve property for another's use as evidence in pending or reasonably foreseeable litigation.").
69 Id. at *3.
70 Id. at *4.
71 Id. at **4-6.
few things out that were not imaged. The trade secrets appeared again at some later point in litigation, but not everything that was required to be produced was produced, leading to further complications in the case. The court finally entered a default judgment in favor of the plaintiff on the trade secrets claim, and found spoliation of the evidence.

X. INJUNCTIONS AND THEIR DISSOLUTION

Attorneys litigating trade secrets cases involving injunctions are often required to approach a case with circumspection. Attorneys risk an adverse result when filing a trade secrets case before gathering all of the necessary information and then moving for a preliminary injunction. Similarly, it is often unwise to move immediately for a Temporary Restraining Order ("TRO") because, if an attorney loses the TRO proceeding, clients and others following the case perceive this as the attorney having lost the case. Such a perception is prevalent despite the hesitation by trial courts to grant injunctions. Therefore, an attorney moving for an injunction should be sure that he has a very strong case. The appropriate strategy for attorneys in this type of situation is to wait until everything is in order — including the evidence and some initial discovery — before moving for the injunction.

However, there are drawbacks to delaying in moving for an injunction. Due to the passage of time, the court may find that there is no irreparable injury. For example, in *Square D Co. v. Van Handel*, the court held the fact that one and a half years had lapsed since the alleged misappropriation indicated there was no irreparable harm. Accordingly, the court denied the injunction.

Another litigation tactic, available to the defense, but rarely utilized, is moving to dissolve an injunction against further use of the trade secrets at issue. Even when a trade secrets misappropriation lawsuit appears to be over, a party can still move to dissolve the injunction under the UTSA when the information at issue is no longer a trade secret, or when there is no longer any commercial advantage in maintaining the information as a trade secret. Although this tactic was unsuccessfully attempted in *MicroStrategy v. Business Objects*, it is important for a party to recognize that even if one loses a trade secrets misappropriation case under the UTSA and an injunction is granted, the losing party can still move to dissolve the injunction. In *MicroStrategy*, an injunction was issued that effectively enjoined the defendants from engaging in any future misappropriation of the documents identified as trade secrets. Six months after the grant of injunction the defendant moved to dissolve the injunction. Although this was a sound litigation strategy, the tactic failed because the defendant filed his motion to dissolve the injunction too soon.

XI. ACCIDENTALLY WAIVING TRADE SECRETS RIGHTS

Attorneys must also be prudent during the pleading stage of litigation. An attorney must exercise care to avoid waiving trade secrets rights when disclosing evidence in a pleading. For example, if an attorney attaches an exhibit containing trade secrets to a

---

72 Id. at *4.
73 Id. at *5.
74 Id. at *7.
76 Id. at *28.
78 Id.
complaint not under seal, and files it in the clerk's office, the defendant may move to dismiss the complaint because the attorney waived the trade secrets rights. That was the issue in *Curcio Webb LLC v. National Benefit Programs Agency, Inc.*[^81] In that case, the court denied summary judgment on the trade secrets issue, holding that attaching a document containing trade secrets to a pleading does not destroy a misappropriation claim the plaintiff may have had at some moment in time.[^82] The plaintiff argued as a result of the misappropriation, the information was no longer a trade secret at the time the complaint was filed. However, the information was a trade secret at the time the alleged misappropriation occurred. The court agreed with the plaintiff's argument, and did not dismiss the suit.[^83]

**XII. Third Parties**

Whether a company, an employer, or an independent contractor, the UTSA requires that in order to hold a third party liable, the third party must know or have reason to know that it was receiving the trade secret information of another party.[^84] It has been held that the element of knowledge for third party liability is satisfied when a third party makes an unauthorized disclosure of trade secret information.[^85]

In recent cases, employers defending against actions based on third party liability argue that although the employee may have committed misappropriating acts in bringing in trade secrets from his former employer, the employer did not know or have reason to know of the misappropriation.[^86] A few years ago, the Virginia courts dealt with this issue by holding the doctrine of *respondeat superior* applied – the agent employee was acting within the scope of his employment, and the employer received the benefit of those nefarious activities.[^87] Therefore, the court held the employer was liable under the doctrine of vicarious liability – *respondeat superior*.[^88]

However, the problem of third parties gaining access to trade secret information by other means persists. Although, there is a knowledge requirement that must be met in order to establish third party liability, a Minnesota case, *Internet, Inc. v. Tensar Polytechnologies*,

[^82]: Id. at 1206-07.
[^83]: Id.
[^85]: See, e.g., Whittaker Corp. v. Execuair Corp., 736 F.2d 1341, 1345 (9th Cir. 1984) (“We see no reason for accrual purposes to distinguish between wrongful acquisition of a trade secret by a third party who does not stand in a confidential relationship to the plaintiff and wrongful disclosure in a two party situation... where the defendant does have a confidential relationship with plaintiff.”).
[^86]: See, e.g., MicroStrategy, Inc. v. Business Objects, S.A., 331 F. Supp. 2d 396, 418 (D. Va. 2004) (“[I]t is relevant... to note that an employer can be liable for trade secret misappropriation committed by an employee acting within the scope of his employment through the doctrine of respondeat superior.”) “One can act in the scope of one’s employment even if the specific acts performed are explicitly forbidden by the employer, so long as the act was intended to further the employer’s interests rather than being wholly motivated by personal interest.” Id. “Moreover, the employer need not even be aware of its employee’s activity.” Id.
[^87]: Id.
[^88]: Id. at 429.

Clearly, many of the plaintiff's ex-employees engaged in extensive conduct that could be considered unethical, improper, and in breach of their employment agreements. These employees solicited or brought with them... a number of confidential documents,... several of which the court concludes constituted trade secrets, and many more of which might very well have been trade secrets regardless of the insufficient evidence presented at trial to support such an inference.
Inc., demonstrates the difficulty in proving such knowledge. In that case, the former employee that took the trade secrets went on to start up his own consulting firm with former customers of his former employer. Then, he actively used those trade secrets in order to solicit business. The court did not grant a preliminary injunction because there was insufficient evidence that the third party receiving the alleged trade secrets knew, or had reason to know, that what he was receiving from the former employee consultant were allegedly misappropriated trade secrets.

XIII. PROCEDURAL MOTIONS

In civil actions brought under the legal theories of agency and vicarious liability, a common trend is for parties to file Rule 19 motions to dismiss for the failure to join a necessary and indispensable party. Trade secret misappropriation cases are no different. The defendant will argue that a necessary party is absent, while at the same time knowing that adding the necessary party would destroy diversity of citizenship, required for federal jurisdiction. This tactic results in a dispute about whether the absent party is absolutely necessary. A good example is Ethypharm S.A. France v. Bentley Pharmaceuticals, Inc., where the parent company, but not the subsidiary, was sued for violation of the Delaware Uniform Trade Secret Act (“DUTSA”). The issue was whether the case could proceed without the subsidiary, which handled most of the negotiation contracts and all related activities. The court examined the issue under the “agency test,” and ultimately found that an agency relationship may in fact exist. Therefore, defendant’s motion to dismiss the case was denied without prejudice to renew, permitting the plaintiff to engage in discovery to determine whether the defendant could be liable either as a joint tortfeasor or under the agency test.

In addition to Rule 19 motions to dismiss, other procedural issues that arise in trade secrets cases are personal jurisdiction, subject matter jurisdiction, choice of law, and choice of the venue. All of these procedural motions can tie up any trade secrets case, sometimes for months at a time. Of course, this strategy risks losing an irreparable injury argument and may affect other issues that come into play due to the passage of time. In a trade secrets case, the passage of time usually benefits the defendant – at least in an injunction situation.

---

89 Id.
91 Id.
92 Id. at **30-31. The court said “it is unclear precisely what trade secrets [the defendant] currently possesses or whether [the defendant even] knew it was benefiting from misappropriated trade secrets at the time it used them.” Id. at *30. However, the court also noted there was no “evidence of which products [the defendant] actually modified, or whether . . . any modifications were explicitly based on specific information.” Id. at **30-31.
95 Id. at 430-431. In determining the relationship of the parties, the court observed, “if Belmac is deemed a necessary and indispensable party under Fed. R. Civ. P. 19, diversity jurisdiction would be extinguished and the case dismissed. . . . If plaintiffs can establish that Belmac acted as an agent of defendant, defendant would be held vicariously liable for Belmac's acts. Plaintiffs . . . do not contest that Belmac is a necessary and indispensable party under a Rule 19 analysis. Rather, plaintiffs assert that Belmac is the agent of defendant and, therefore, need not be joined. The court concludes discovery is necessary to develop this claim.”
96 Id. at 342. Under the agency approach, “[i]n order for the parent corporation to be liable under this test, there must be ‘a close connection between the relationship of the corporations and the cause of action.’” Id. (citation omitted).
97 Id.
As time continues to pass the plaintiff's argument that they are irreparably damaged as a result of the defendant's actions begins to fail. Of course, in a damages situation, the opposite may be true and the plaintiff could benefit. In a damages case, as time passes the plaintiff's damages continue to increase.

XIV. OTHER INTERESTING TRADE SECRETS DEVELOPMENTS

A. Ostrich Defense

There are many defenses available to defendants in trade secrets cases. However, ignorance is not one of those defenses, and what is often known as the "ostrich defense" does not work in trade secrets law. Likewise, plaintiffs cannot rely on ignorance or lack of knowledge to overcome a statute of limitations defense. In Adcor Industries, Inc. v. Bevcorp, LLC, the court held that the statute of limitations implies a duty upon the plaintiff to investigate whether there was trade secret misappropriation. The court in that case, rejecting the assertion that actual knowledge of the misappropriation is required, charged the plaintiff with knowledge because plaintiff had sufficient reason to suspect misappropriation of its trade secrets. That suspicion started the clock for the purposes of the statute of limitations.

B. All or Nothing Trap

An attorney should also be wary of an “all or nothing trap” when claiming damages. For example, if an attorney has a damages claim that is based upon the theft of eleven trade secrets for twelve million dollars, but the jury comes back and only finds five out of the eleven trade secrets were misappropriated, if the attorney had no sliding scale for a damages claim, the twelve million dollar damages disappear completely. O2 Micro International Limited v. Monolithic Power Systems, Inc. is representative of this type of trap.

C. Conversion Claims

A cause of action that often arises in trade secrets cases is a claim of conversion. Although conversion claims are often displaced or preempted by trade secrets statutes,
some are able to subsist in situations where there is information that is not considered a trade secret, but rather some other property that was converted. One should keep in mind that there are four elements to a conversion cause of action. The fourth element requires a demand for possession. A party must actually make that demand for absolute and unqualified possession. In Caterpillar Inc. v. Sturman Industries, Inc., the plaintiff was litigating a conversion claim. The defendant had satisfied the first three elements, but there was no evidence they had ever made the formal demand for possession. The lack of demand resulted in the conversion claim being thrown out.

D. Combination Analysis

An attorney must always perform the "combination analysis" in a trade secrets case. This means that, while each individual element of the alleged trade secret may not itself be a trade secret, it is possible to argue that the combination creates an economic value not generally known in the trade. The case Catalyst & Chemical Services, Inc. v. Global Broung Support states that a combination qualifies as a trade secret only where there is added value to the combination over the value of the individual elements.

CONCLUSION

The protection of trade secrets provides a business with a competitive advantage over competitors who are not privy to the proprietary information comprising the trade secrets. As opposed to other forms of intellectual property protection that are created by governmental action, such as patent and trademark protection, trade secrets are created when individuals or corporations declare that the subject matter being claimed is a secret. With companies increasingly attempting to protect information by designating it as a trade secret, an increase in trade secret-related litigation has emerged, leading to recent trends arising from such litigation. While the law of trade secrets is far from universal, these recent developments illustrate the importance of understanding the nuances of trade secret law.
Recent Developments in Trade Secrets Law

Recent developments continue to remove the uncertainties concerning the parameters of trade secrets protection.