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Pre-filing investigation of a trade secret misappropriation claim: the EONA proofs

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To prevail in a trade secret misappropriation lawsuit, the plaintiff must submit evidentiary proof of existence, ownership, notice and access — the EONA proofs.

The pre-filing investigation of a trade secret misappropriation claim requires evidentiary proof of existence, ownership, notice and access — the EONA proofs. These requirements should be strictly enforced to discourage "bad faith" trade secret misappropriation lawsuits.

These evidentiary proofs should be determined and investigated by the trade secret holder for *each* alleged trade secret *before* the trade secret misappropriation lawsuit is filed.

Failure to investigate the EONA proofs should be grounds for a finding of "bad faith" under the UTSA (Uniform Trade Secrets Act) and DTSA (Defend Trade Secrets Act). Too often defendants face trade secret misappropriation claims not well grounded in fact or law and must incur hundreds of thousands of dollars in legal fees defending against alleged trade secret misappropriation claims that would have never been filed if there had been a good faith pre-filing investigation of the EONA proofs.

Trial courts need to require trade secret plaintiffs to make the requisite EONA showings at the outset of the litigation for each alleged trade secret. If the plaintiff fails, the defective alleged trade secrets should be dismissed, and the defendant should be awarded attorney's fees and expenses as the prevailing party.

The 'existence' proofs

There is no exact definition of a trade secret due to the vast spectrum of information that could qualify as a trade secret. And the wide array of factual circumstances that could be determinative or fatal to the classification of a piece of information as a trade secret contributes to the malleable definition of a trade secret.

The statutory provisions defining a "trade secret" in the UTSA and DTSA focus on the secrecy and value of the information and the reasonable efforts by the trade secret owner to maintain secrecy and confidentiality. But these statutory requirements are not evidentiary, and they do not flush out the fact-intensive factors to be considered in determining whether a trade secret exists.

The key litmus test in trade secrets law is the six-factor test identified by the American Law Institute in 1939 after a review of over 100 years of case law in the 19th century. The six factors are:

(1) The extent to which the information is known outside the business.

(2) The extent to which the information is known by employees and others involved in the business.

(3) The extent of measures taken by the business to guard the secrecy of the information.

(4) The value of the information to the business and competitors.

(5) The amount of time, effort and money expended by the business in developing the information.

(6) The ease or difficulty with which the information could be properly acquired or duplicated by others.

Today, the six-factor test has been adopted by virtually every state and federal court in the United States.

The attraction of the six-factor test is its ability to evaluate any potential trade secret under any set of circumstances. It is extraordinarily versatile and compatible with modern trade secret law.

The pre-filing investigation of an alleged trade secret misappropriation claim should include an evaluation of the alleged trade secret including the evidentiary proofs under the six-factor litmus test. A trade secret misappropriation lawsuit should not be filed without a thorough review of these six-factor evidentiary proofs.

The 'ownership' proofs

The "ownership" proof requires the holder of the trade secret to show proof of ownership. The existence of a trade secret precedes ownership of a trade secret. If a piece of information is generally known in the trade, or is readily ascertainable by proper means, ownership becomes irrelevant because anyone can disclose or use the piece of information. The world "owns" it.

There is no definition of "owner" in the UTSA. However, the DTSA defines "owner" regarding a trade secret as "the person or entity in whom or in which rightful legal or equitable title to, or license in, the trade secret is reposed." Therefore, there can be concurrent (and multiple) owners of the same trade secret.

The allocation of ownership between employers and employees emanates from the law of agency. There is no "work for hire" doctrine in trade secret law or patent law. Without a contrary agreement or assignment, the law ordinarily assigns ownership to the person who conceives the invention or trade secret. Employees also may retain ownership of information comprising their general knowledge, skills and experience.

The sole exception is the "hired to invent" doctrine. If an employee is "hired to invent" something and later invents it — the employer owns it based on the "hired to invent" doctrine. But in all other circumstances, ownership vests in the employee as the creator of the trade secret or invention.

Courts also apply the "shop rights" doctrine to trade secrets. If an employee-invention involves the employer's time, personnel, facilities or equipment, the employer retains a "shop right" — an irrevocable, nonexclusive, royalty-free license to practice the invention and related trade secrets.

The 'notice' proofs

The trade secret owner must show that the alleged misappropriator had actual, constructive, or implied notice of the alleged trade secret. Notice requires identification of the alleged trade secret with particularity. An alleged trade secret must be described with sufficient specificity so that when a description of what is generally known in the industry is placed side-by-side with the description of the alleged trade secret, a comparison can be made between the alleged trade secret and what is already generally known in the trade.

The requirement of notice is a reasonable measure required to protect the secrecy of the piece of information alleged to qualify as a trade secret. It is improper to claim the existence of a trade secret after the fact. To maintain the secrecy of a putative trade secret, the employer must place the employee on notice of the trade secret status of matters the employee is working on. The traditional means for placing an employee "on notice" is to require the employee to sign a secrecy agreement or a nondisclosure agreement.

It is a fundamental tenet of trade secret law that an unprotected disclosure of confidential information to the receiving party vitiates the status of the information as a trade secret. It is like a "pin pricking a balloon" — the status of the information as a protectable trade secret asset is forfeited.

The "notice" requirement in trade secrets law is the linchpin for imposing liability on the alleged trade secret misappropriator. There is no liability if there is no notice of the confidential character of the disclosure. If A discloses the secret to B despite B's protest that he does not wish to hold the secret in confidence and will not so hold it if it is disclosed, there is no breach of confidence and no liability.

Notice can be proved by direct or circumstantial evidence: One has notice of the facts when he knows of them or when he should know of them. He should know of them if, from the information which he has, a reasonable person would infer these facts, or if, under the circumstances, a reasonable person would be put on inquiry and an inquiry pursued with reasonable intelligence and diligence would disclose the facts.

The 'access' proofs

Assuming the existence of at least one trade secret, there are three forms of misappropriation under the UTSA and DTSA: unauthorized acquisition, unauthorized disclosure, and unauthorized use.

There must be proof of "access." This is a typical fact pattern:

(1) An employee acquires Trade Secret X from the existing employer.

(2) The employee resigns and joins a direct competitor (new employer).

(3) The former employee takes Trade Secret X to the new employer.

(4) The former employee discloses Trade Secret X to the new employer.

(5) The new employer and the former employee are sued for trade secret misappropriation.

The entire fact pattern is triggered by the initial acquisition of Trade Secret X by the employee. Without access and acquisition, there can be no liability for trade secret misappropriation.

Acquisition of a trade secret by improper means is wrongful. Acquisition of a trade secret by proper means is lawful. Whether by "proper" means or "improper" means there must be proof of the defendant's "access" to the trade secret. Otherwise, the trade secret owner cannot establish a prima facie cause of action for trade secret misappropriation. Unlike the holder of a patent, the owner of a trade secret has no claim against another who independently discovers the trade secret or otherwise lawfully acquires the trade secret by reverse engineering or other proper means.

Pre-filing investigation

The pre-filing investigation of a trade secret misappropriation claim requires evidentiary proof of existence, ownership, notice and access — the EONA proofs.

These requirements should be strictly enforced to discourage "bad faith" trade secret misappropriation lawsuits. Once again, the EONA proofs should be determined and investigated by the putative trade secret holder for *each* alleged trade secret *before* the trade secret misappropriation lawsuit is filed.

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About the author

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