The existence and misappropriation of trade secrets

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There is no such thing as "trade secret infringement." The cause of action is "trade secret misappropriation." There can be no cause of action for trade secret misappropriation without proof of at least one alleged trade secret. This is the mistake that many plaintiffs make in trade secret misappropriation lawsuits. The plaintiff alleges nefarious acts of "misappropriation" without evidence of a trade secret.

Proof of a "trade secret" precedes "misappropriation." If there is no "trade secret" then there can be no "misappropriation." This error is often fatal to plaintiff's trade secret misappropriation claim.

Proof of an alleged trade secret requires the EONA proofs: Existence, Ownership, Notice and Access. Without evidence of the EONA proofs there cannot be a valid trade secret misappropriation claim. Further, there must be a causal link between a "trade secret" and the "misappropriation" of the trade secret. For example, if the plaintiff alleges that A is the trade secret, but the evidence shows that the defendant appropriated B not A – there is no valid trade secret misappropriation claim for A.

There are three main avenues for establishing misappropriation of a trade secret: unauthorized acquisition, unauthorized disclosure, or unauthorized use of the trade secret.

The Uniform Trade Secrets Act (UTSA) and Defend Trade Secrets Act (DTSA) define misappropriation as follows:

"Misappropriation" means:

(i) *Acquisition* of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or

(ii) *Disclosure or use* of a trade secret of another without express or implied consent by a person who:

  (A) Used improper means to acquire knowledge of the trade secret; or

  (B) At the time of disclosure or use, knew or had reason to know that his knowledge of the trade secret was

    i. Derived from or through a person who had utilized improper means to acquire it;

    ii. Acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or

    iii. Derived from or through a person who owed a duty to a person seeking relief to maintain its secrecy or limit its use; or

  (C) Before a material change of his [or her] position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.

Unauthorized acquisition of a trade secret requires proof of five elements: (1) a trade secret; (2) acquisition (3) by improper means (4) by a person (5) who knew or had reason to know that the trade secret was acquired by "improper means."

There are three main avenues for establishing misappropriation of a trade secret: unauthorized acquisition, unauthorized disclosure, or unauthorized use of the trade secret.

The lawful acquisition of a trade secret is not actionable. Independent development of the trade secret is not actionable. Likewise, independent reverse engineering of the trade secret is not actionable. It is the use of "improper means" to procure the trade secret rather than the mere copying or use of the trade secret that creates liability for trade secret misappropriation.

The UTSA and DTSA define "improper means" to include theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means. This list is not exhaustive.

The Economic Espionage Act of 1996 (EEA) defines the theft of trade secrets to include instances where one steals, or without authorization appropriates, takes, carries away, conceals, *or* by fraud, artifice, or deception obtains trade secret information *or* without authorization copies, duplicates, sketches, draws, photographs, downloads, uploads, alters, destroys, photocopies, replicates, transmits, delivers, sends, mails, communicates or conveys trade secret information *or* receives, buys or possesses trade secret information, knowing the same to have been stolen or appropriated, obtained, or converted without authorization.

Attempts to steal trade secrets or conspiracies to steal trade secrets also fall within the ambit of "improper means."

At the time of acquisition, if the acquirer "knows or has reason to know" that the trade secret was acquired by improper means then the acquirer is liable for trade secret misappropriation. If based on the known facts, a reasonable person would have inquired further to ascertain whether the trade secret information was acquired by improper means, this will satisfy the "reason to know" standard. Studious ignorance of the circumstances surrounding the acquisition of the trade secret information will not necessarily shield the acquirer from liability.

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Among the facts relevant in establishing the acquirer's actual or constructive knowledge include the security measures taken to protect the trade secret information and the customs and practices in the industry to keep such information secret. However, if the acquirer does not know or have reason to know that the trade secret was acquired by improper means there cannot be liability for trade secret misappropriation.

"Access" is a critical evidentiary proof to establish acquisition and unauthorized disclosure or use of a trade secret. There cannot be an unauthorized acquisition, disclosure or use of a trade secret without "access" to the trade secret. This is where circumstantial evidence comes into play in trade secrets law.

The plaintiff has the burden to establish how the defendant allegedly acquired, disclosed and used the alleged trade secret without authorization. Direct evidence of theft is often not available. The defendant denies everything. Therefore, plaintiff must rely on circumstantial evidence to prove trade secret misappropriation by drawing inferences from the fact-intensive web of evidence present in virtually every trade secret dispute. It is the exclusive function of the jury to weigh the credibility of witnesses, to resolve evidentiary conflicts and to draw reasonable inferences from proven facts.

For example, if you wake up in the morning and see the sidewalk is wet, you may find from that fact that it rained during the night. However, other evidence, such as a turned-on garden hose, may explain the water on the sidewalk. It is the function of the jury to consider all the evidence — direct and circumstantial — in light of reason, experience, and common sense.

A classic example of the use of circumstantial evidence to prove trade secret misappropriation is the access-plus-similarity test. Under this test, the defendant's knowledge of the plaintiff's trade secret together with substantial similarities between the plaintiff's product and the defendant's product may justify an inference of trade secret misappropriation by the defendant.

A trade secret misappropriation cause of action consists of two critical evidentiary blocks: (1) the existence of a trade secret and (2) the misappropriation of the trade secret. Both are complex tasks that require careful analysis of direct and circumstantial evidence.

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