

Trade secret misappropriation claim turns on proof of improper means

By R. Mark Halligan, Esq., FisherBroyles LLP

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The law of trade secrets is built upon a foundation of “proper” means and “improper” means. Acquiring a trade secret by proper means is not actionable. Acquiring a trade secret by improper means is actionable.

The plaintiff in a trade secret misappropriation lawsuit must prove the existence of a trade secret and evidence to establish a misappropriation of the trade secret. A trade secret is any information that can be used in the operation of a business or other enterprise and that is sufficiently valuable and secret to afford an actual or potential economic advantage over others.

The Uniform Trade Secrets Act (UTSA) defines improper means to include theft, bribery, misrepresentation, breach or inducement of a breach to maintain secrecy, or espionage through electronic or other means.

Whether a trade secret exists is a question of fact. Proof of the existence of a trade secret requires a six-factor analysis:

- (1) the extent to which the information is known outside the claimant’s business;
- (2) the extent to which the information is known by employees and others involved in the claimant’s business;
- (3) the extent of the measures taken by the claimant to guard the secrecy of the information;
- (4) the value of the information to the claimant and to its competitors;
- (5) the amount of effort or money expended by the claimant in developing the information;
- (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.

A person is not subject to liability for misappropriation if the information is not a trade secret. Without proof of the existence

of at least one trade secret, there is no cause of action for trade secret misappropriation. Information that is readily ascertainable by proper means is not protectable as a trade secret.

A successful trade secret misappropriation claim requires proof of improper means. A person who obtains a trade secret by inducing or knowingly accepting a disclosure from a third person who has acquired the trade secret by improper means, or who induces or knowingly accepts a disclosure from a third person in breach of a duty of confidence owed by the third person to the trade secret owner, will be deemed to be acquisition by improper means.

The Uniform Trade Secrets Act (UTSA) defines improper means to include theft, bribery, misrepresentation, breach or inducement of a breach to maintain secrecy, or espionage through electronic or other means. The Defend Trade Secrets Act (DTSA) replicates the UTSA definition of improper means but adds another provision: The term “improper means” does not include reverse engineering, independent derivation, or any other lawful means of acquisition.

“Reverse engineering” involves intentional access to another’s product for lawfully discerning what it is, how it was made, how it works, and what its advantages and limitations may be. It is a process by which a finished product is broken down into its components to determine how the product was created.

Under the DTSA and the UTSA, the plaintiff has the burden to prove the improper means of acquiring the trade secret and the defendant must acquire the trade secret by proper means.

“Independent derivation” (or independent development) of the trade secret can be based on many activities, including reviewing patent applications and issued patents, websites, chat rooms, industry trade shows and publications, government filings and submissions, judicial and administrative proceedings, social media and professional networking sites, and published articles. Almost any means will suffice so long as there is no improper means of acquisition or unauthorized exposure to another’s trade secrets.

Trial courts reject the “could have” defense in trade secret misappropriation lawsuits. Evidence that a defendant “could have” obtained a trade secret by reverse engineering or independent derivation is not a defense to a trade secret misappropriation claim if the defendant does not actually use proper means to acquire the information. Under these circumstances, the misappropriation will be deemed to be an acquisition by improper means.

The same holds true for a trade secret which requires that the information derive independent economic value from not being “readily ascertainable” through proper means. Evidence of what the defendant could readily have done or readily might have done to acquire the trade secret will be deemed improper means because the defendant did not do the things that were readily ascertainable.

One of the ways a company can reduce the risk of a trade secret misappropriation lawsuit is to establish “clean room” procedures to avoid an allegation of improper means in future litigation. A clean room can be implemented by interviewing and selecting only individuals on the R&D team that have not been exposed to a competitor’s trade secrets during prior employment.

The clean room development team also works in an isolated environment to ensure that there is no exposure to a competitor’s trade secrets. The clean room procedures will then provide a defense against a claim of “improper means” and instead establish evidence of independent development by proper means.

R. Mark Halligan is a regular contributing columnist on trade secrets law for Reuters Legal News and Westlaw Today.

About the author



R. Mark Halligan is a partner at **FisherBroyles LLP** and is based in Chicago. He focuses his practice on intellectual property litigation and is recognized as a leading practitioner in the development of automated trade secret asset management blockchain systems. He teaches advanced trade secrets law in the LLM program at University of Illinois Chicago School of Law and is the lead author of the “Defend Trade Secrets Act Handbook,” 3rd Edition, published by Wolters Kluwer. He can be reached at rmark.halligan@fisherbroyles.com.

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