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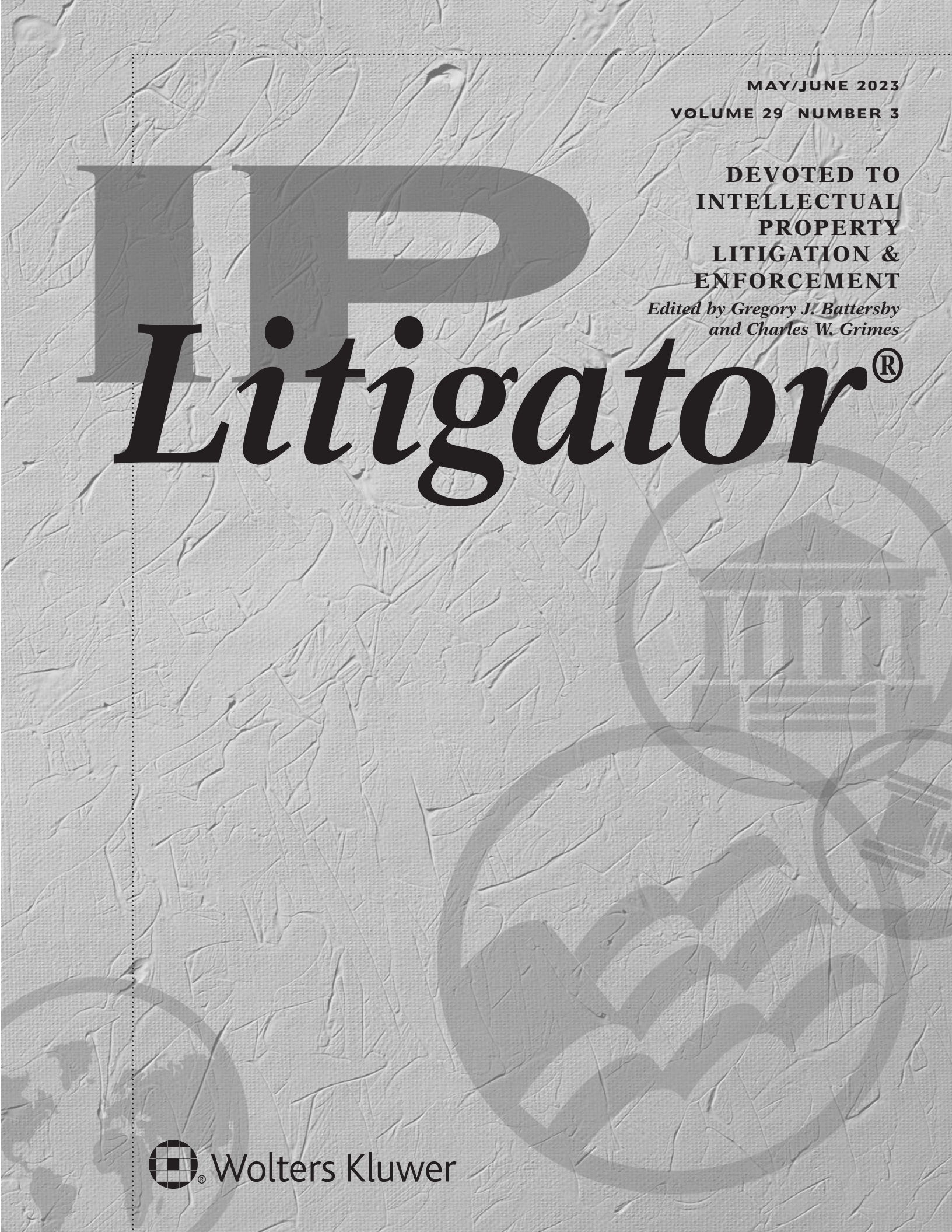

Wolters Kluwer

Trade Secret Litigation

Nicholas W. Armington, Michael T. Renaud, and Jonathan J. Engler

I Spy a Trade Secret: Conducting Proper Trade Secret Asset Management Review to Avoid Sufficiency Failure in Litigation

A recent trade secret matter pending in federal court in California shows the pitfalls of a company's failure to do trade secret asset management before filing a trade secret lawsuit, and also highlights some important lessons for trade secret litigators to always keep in mind when preparing a complaint alleging misappropriation of a trade secret either in the state or federal court.

Trade secret asset management allows companies to actively catalog their valuable trade secret assets in advance of any need for litigation. Should litigation become necessary, companies that have taken this necessary step can easily avoid the pitfall of providing an insufficiently vague description of their trade secrets in a complaint alleging misappropriation. Trade secret asset management includes a number of steps to properly identify and catalog a company's valuable trade secret assets, including identification of core categories of trade secret information and the custodians for such information, identifying documentation showing the existence and value of such trade secret assets, and identifying and, where necessary, strengthening measures taken to maintain the secrecy of such assets. Virtually all successful trade secret cases based on misappropriation of technology need to take these steps at some point during the case or the case will fail, so it is incumbent upon companies to conduct trade secret asset management upfront in advance of any potential litigation.

Background of the Case

The case in California pitted a medical diagnostics company against certain competitors, as well as the competitors' director of software products. The director of software products is accused of taking an external hard drive with him upon leaving the diagnostics company with tens of thousands of proprietary files on it, including trade secret information. He is also accused of recruiting additional employees of the diagnostics company to leave for the competitor.

During a hearing on a renewed motion by the diagnostics company for a preliminary injunction seeking to prevent the unlawful use of certain diagnostic software that allegedly benefits from its trade secrets, the Judge criticized the diagnostics company for its vague description of its alleged trade secrets. This first lesson is one trade secret litigators should always have front of mind when pleading trade secret claims—what is my trade secret? While litigants are not required to disclose all aspects of their trade secret, especially when filing a complaint, they must provide a sufficient description of the alleged trade secret aspects of the misappropriated information to satisfy their burden to state a claim for relief under the relevant trade secret law. This is especially the case in California, where trade secret plaintiffs are required to identify a trade secret with "sufficient particularity" prior to the start of discovery. California Code of Civil Procedure § 2019.210. Indeed, at least in the Ninth Circuit, this requirement for "sufficient particularity" also applies to claims made under the federal Defend Trade Secrets Act. *InteliClear, LLC v. ETC Global Holdings, Inc.*, 978 F.3d 653 (9th Cir. 2020). Thus, when bringing a trade secret claim, a first question to always ask is, "What is my trade secret and how will I describe it in my complaint?" By performing trade secret asset management before any potential litigation arises, a company can be sure that their valuable assets are cataloged in a way that allows for sufficiently precise description of misappropriated trade secret information in litigation so as to avoid the pitfall suffered in this case.

During the hearing, the judge also took issue with allegations that the use of proprietary software was a trade secret, stating plainly at one point that it is not a trade secret to use a trade secret. This distinction highlights an ongoing question of to what extent "use" can qualify as misappropriation or, relatedly, whether use is a "predicate act" when pleading a RICO claim supported by allegations of trade secret theft. As previously discussed by Mintz here (link: *https://www.mintz.com/insights-center/viewpoints/223½022-03-10-open-question-use-stolen-trade-secrets-may-or-may-not*), trade secret misappropriation under

the DTSA can qualify as a "predicate act" supporting a civil RICO claim, but the circumstances under which the use of misappropriated trade secrets may qualify as a predicate act remains an unsettled question with courts split on whether use of a trade secret qualifies.

Takeaways

On a final practice note, counsel in this case appears to have relied on arguments concerning what constituted alleged trade secrets made in papers filed much earlier in the case, without explicitly reiterating them in the moving papers before the court. This is a good reminder to all trade secret litigators that it is incumbent on the attorneys to always place the relevant facts, law, and argument before the court, and never the judge's obligation to go digging to make a party's case.

Of the many lessons to be learned from this case, perhaps the most important is that adequate trade secret asset management conducted in advance of any litigation will allow companies that do end up having to bring suit to adequately describe their trade secret assets to avoid any shortfall in the relief they are able to obtain from the court.

Nicholas Armington is an Associate in the Intellectual Property practice at Mintz. He is a trial lawyer focused on trade secret litigation, combining practical advice with deep experience to deliver results for clients. Nicholas has long experience representing clients in federal and state court, and at the International Trade Commission, where his practice covers all aspects of IP litigation with a focus on cases concerning allegations of trade secret misappropriation.

Jonathan Engler is a Member of the Intellectual Property practice at Mintz. He is a seasoned IP litigator who focuses his practice on representing complainants and respondents in patent, trade secret, trademark, and copyright cases before the US International Trade Commission, and in appeals of those disputes at the Court of Appeals for the Federal Circuit. Drawing on his extensive experience as an ITC attorney in private practice and his tenure as an attorney with the ITC and in the US Department of Commerce, he successfully represents parties on both sides of ITC disputes.

Michael Renaud is a Member and firmwide Chair of the Intellectual Property practice at Mintz. He is one of few attorneys who can manage parallel litigations in front of the US International Trade Commission, in US Federal District Courts, and in global jurisdictions. Michael is known for his experience with developing comprehensive monetization strategies, conducting IP due diligence, counseling investment firms on implementing strategies for leveraging patent value, negotiating deals and generating revenue through strategic partnerships, and prosecuting coordinated international enforcement actions.