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Trade Secrets Update

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I.

INTRODUCTION

This paper is designed to provide: (1) practical advice for handling trade secret disputes at each significant phase of a litigation matter from the pre-filing stage to trial; and, in so doing, (2) an update of recent decisions involving trade secrets in federal and state courts.

II.

PRACTICAL ADVICE REGARDING TRADE SECRET CLAIMS FROM PRE-SUIT TO TRIAL

A. Pre-Suit Considerations

1. Whether to Send Cease and Desist Letters

Cease and desist letters can be an effective way to deter the misappropriation of trade secrets in some cases. For example, in the employment context, if a new employer has not been told the full story about how an employee acquired certain information, this could cause the employer to reconsider using it. Further, the new employer may not know how committed the company is to protecting the information at issue. A cease and desist letter that demonstrates a strong commitment to doing what is necessary to protect a trade secret should at a minimum cause the new employer to perform a cost benefit analysis of the cost and risk of litigation versus the benefit of being able to use the information at issue.

One risk of sending a cease and desist letter is that the putative defendant may decide to file a preemptive lawsuit for, among other things, a declaratory judgment. This would not prevent the owner of the trade secret from seeking injunctive relief; but, it could complicate matters including venue. On the other hand, a cease and desist letter does not necessarily create a case or controversy under the Declaratory Judgment Act. *Nationwide Indus., Inc. v. D & D Techs. (USA), Inc.*, 8:12-CV-2372-T-27EAJ, 2014 WL 12619228, at *3 (M.D. Fla. Jan. 30, 2014) (“That Defendants have filed prior lawsuits attempting to protect patent rights does not support Plaintiff’s contention that a substantial and immediate controversy exists at this time between Plaintiff and Defendants as a result of the cease and desist letter which alludes to the Lanham Act. Although some of the litigation between the parties (Case No. 00236) related to two of the same products mentioned in the cease and desist letter, the letter did not discuss patents or an intent by Defendants to protect any proprietary interest in those products. Rather, it made only a vague and generalized reference to false advertising and the Lanham Act.”)

Although some litigants have argued that sending a cease and desist letter into a forum could create evidence establishing personal jurisdiction, courts have rejected the notion that a cease and desist letter, by itself, is sufficient to do so. *Bandai Am. Inc. v. Brown*, CIV 00-13364 WMB, 2002 WL 31417189, at *7 (C.D. Cal. June 1, 2002) (“A recent decision of the Federal Circuit reinforces the conclusion that sending cease-and-desist letters into a state, without more, does not suffice to create personal jurisdiction over the sender in that state. In that case, a patentee sent three letters to a manufacturer that alleged infringement and offered to negotiate the terms of a non-exclusive license. *See Red Wing Shoe Co., Inc. v. Hockerson-Halberstadt, Inc.*,

148 F.3d 1355, 1357–58 (Fed.Cir. 1998). The court held that “the threat of an infringement suit, as communicated in a cease-and-desist letter,” without more, is “not sufficient to satisfy the requirements of Due Process in declaratory judgment actions.” *Id.* at 1360.”)

Another risk of a cease and desist letter is that it can constitute some evidence of tortious interference or defamation if sent to third parties. *See, e.g., Deuell v. Texas Right to Life Comm., Inc.*, 508 S.W.3d 679, 691 (Tex. App.—Houston [1st Dist.] 2016), *reh'g overruled* (Dec. 29, 2016) (“We conclude that TRLC's tortious interference claim is not protected by the absolute judicial privilege, because TRLC does not seek to recover reputational or defamation-type damages.³ To the contrary, TRLC seeks direct and consequential contract damages that allegedly flowed from Deuell's sending cease-and-desist letters to Cumulus and Salem.”).

2. Insurance Should Be Reviewed

The owner of the trade secret should analyze all potentially relevant insurance policies for coverage. There are many types of policies that may apply. *See, e.g., M. Skidmore*, 13 J. Tex. Ins. L. 27, 33 (2015) (general liability/errors and omissions, directors and officer's liability insurance, commercial property insurance, and crime/fidelity insurance should all be reviewed for potential coverage). It is also true that courts may deny coverage if there is a dispute depending, of course, on the language in the policy. *See, e.g., Nationwide Mut. Ins. Co. v. Gum Tree Prop. Mgmt., L.L.C.*, 597 Fed. Appx. 241, 248 (5th Cir. 2015). A detailed discussion of insurance for trade secrets is beyond the scope of this presentation; but, there are scores of reported decisions and secondary articles on this issue. *See, e.g., Cont'l Cas. Co. v. Consol. Graphics, Inc.*, 646 F.3d 210 (5th Cir. 2011) (Absent any evidence suggesting that insured printing company disseminated a competitor's trade secrets in a public manner, primary commercial general liability (CGL) insurer was not obligated, under Texas law, to indemnify its insured pursuant to policy's advertising injury coverage provision); *Rymal v. Woodcock*, 896 F. Supp. 637 (W.D. La. 1995) (liability insurer had duty to defend insureds against claims of patent infringement, unfair trade practices or misappropriation of trade secrets where there was possibility of coverage under advertising injury liability endorsement, which covered injuries arising out of offenses committed in course of named insured's advertising injuries, if injury arose out of piracy or unfair competition); *Mut. of Enumclaw Ins. Co. v. Jonas*, 35 Fed. Appx. 556, 557–58 (9th Cir. 2002) (“All the terms surrounding “unfair competition” involve intellectual property or the disparagement of one's name. They do not involve, and are not closely related to, the misuse of trade secrets. Accordingly, when considered in context, the common law definition offered by Mutual is the only plausible definition. Because the suit against Jonas does not fall within the only plausible definition offered by the parties, it was not covered and Mutual owed no duty to defend”); D. Peter Harvey, *Insurance for Intellectual Property Claims: The Growing Coverage Debate*, 6 Intell. Prop. L. Bull. 1 (2001) (“Coverage for claims of trade dress, copyright and patent infringement, unfair competition, and trade secret misappropriation, under similar policy provisions, is anything but clear.”); Todd M. Rowe, *Specialty Insurance for Intellectual Property: Additional Security for Owners of Intellectual Property Assets*, 19 DePaul J. Art, Tech. & Intell. Prop. L. 1, 6 (2008) (“Advertising injury provisions have been part of the standard form CGL insurance policy for many years, and a growing body of case law has developed around claims that advertising injury provisions provide

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