

Bad Faith and the Public Domain: *Requiring a Pre-Lawsuit Investigation Of Potential Trade Secret Claims*

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ABSTRACT

Overbroad trade secret allegations threaten important social interests in employee mobility and a robust public domain. This article proposes that courts require trade secret plaintiffs to conduct a pre-lawsuit investigation into the public domain to ascertain whether information is truly secret, or face attorneys' fees for pursuing a claim based on non-secret information that a reasonable search would have located. This requirement, if widely adopted, would put teeth into the underutilized fee-shifting statutes enacted with the Uniform Trade Secrets Act. Patent law, a useful analogy, requires a pre-lawsuit infringement investigation.

With a heightened awareness today of the need to protect the public domain for the important social interests it furthers, it is time that courts follow the lead of patent law and require that would-be trade secrets plaintiffs conduct a pre-lawsuit secrecy investigation. The result would be beneficial for both trade secret plaintiffs and defendants, would reduce many of the common disputes arising during trade secret litigation, and would protect the public interests at stake in trade secret lawsuits.

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I. INTRODUCTION

¶1 It is a remarkable but little-discussed fact of trade secret litigation that plaintiffs rarely investigate whether the information they claim as secret is in the public domain before accusing a defendant of misappropriation. This is so even though many alleged trade secrets are easily found on the Internet, in patents, in academic papers, or in information disclosed by competitors. A simple pre-lawsuit search would, in many cases, reveal the absence of a colorable claim, because information in the public domain cannot be anyone’s trade secret. Nonetheless, in the everyday reality of trade secret litigation, the defendant – often a company that has just hired employees from the plaintiff – is the party that must spend the time and money to prove that the information at issue is in the public commons, free for all to use. Because trade secret defendants are often small, newly-established ventures, the costs of hiring experts and preparing a defense can be a severe drain on limited resources.

¶2 As debate grows in intellectual property circles over the protection of the public domain from private interests who would limit its scope, it is time to call into question the ability of a trade secret plaintiff to file a lawsuit without first making certain that it actually owns secret information. This is not merely a private matter between business competitors. Overbroad or meritless trade secret lawsuits threaten important public interests in employee mobility, business competition and innovation, and the ability to use information in the public domain. The most common target of a trade secret lawsuit is an employee who changes jobs and joins a competitor or forms a new business. New businesses, especially in high technology, promote innovation and ideas. When plaintiffs claim ownership in information that is public and force small businesses to prove otherwise, they inhibit people’s rights to change jobs freely and divert resources from research and development into litigation. They also tie up information that should be available for a competitor to use without fighting off a lawsuit.

¶3 It is unacceptable in today's climate that trade secret plaintiffs file lawsuits without researching whether or not the information they claim as secret is in fact secret. This article proposes that courts require that would-be trade secret plaintiffs conduct a reasonable pre-lawsuit investigation into the public domain to ascertain whether a potential trade secret claim is colorable. To enforce this obligation, courts should use the existing provisions in forty jurisdictions – enacted since the mid-1980s as part of the Uniform Trade Secrets Act – that entitle defendants to attorneys' fees when a plaintiff files a misappropriation claim in bad faith. In other words, courts should find bad faith where a plaintiff asserts trade secret claims without conducting a pre-lawsuit investigation into trade secrecy, and where the defendant shows that a reasonable search would have revealed the non-secret nature of the information at issue.

¶4 Patent law, which requires that would-be plaintiffs satisfy Federal Rule of Civil Procedure 11 by undertaking a pre-lawsuit investigation to determine whether an infringement claim is colorable, provides a useful analogy. Since the early 1990s, plaintiffs in several patent infringement cases have been sanctioned for failing to reverse engineer the accused product and compare it against the patent's claims before filing suit.

¶5 This requirement would protect the social interests threatened by overbroad trade secret allegations, including employee mobility and unfettered access to the public domain by entrepreneurial businesses. In addition, and as will be discussed below, requiring a pre-lawsuit secrecy investigation would likely result in benefits for both trade secret defendants and plaintiffs. Plaintiffs with solid claims would appear in court with a specific list of items whose secrecy has already been investigated – making an injunction or favorable settlement more likely. Similarly, trade secret defendants might no longer have to use motion practice to force plaintiffs to provide a specific identification of their alleged secrets, because any plaintiff who has conducted a pre-lawsuit investigation will necessarily have created a specific list of items. Defendants would also benefit because plaintiffs would no longer be able to confuse courts with expert witness reports that declare information secret without the expert's having conducted an adequate investigation into the public domain.

¶6 Courts could impose this requirement under the Uniform Trade Secrets Act bad faith provisions. These provisions have been underutilized in the two decades since they were first made law, especially outside California. The few decisions reached under them have been inconsistent. Attorneys' fees have been denied to defendants in cases where it appears that the plaintiff never had a viable trade secret to begin with and would have known that if it had undertaken a pre-lawsuit investigation. Even in California, which traditionally has provided the strongest protections for trade secret defendants, the bad faith statute has not yet been expressly interpreted to require a pre-lawsuit secrecy investigation.

¶7 In turn, the UTSA bad faith provisions have received virtually no scholarly attention. This is the first article devoted to analyzing the statute, the cases decided under it, and proposing a uniform requirement designed to help courts separate meritless claims from colorable trade secret lawsuits.

¶8 This article will collect and discuss every case nationwide that has considered awarding attorneys' fees to a trade secret defendant for possible bad faith by a trade secret plaintiff. It will discuss the wider social implications of requiring a pre-lawsuit secrecy investigation, and illustrate how past decisions could have been better decided had such a requirement been in place. Finally, this article will review how stringent such a requirement should be when a potential plaintiff is being required to prove a negative – that is, to prove that information it possesses is not known to others.

II. THE PROBLEM: OVERBROAD TRADE SECRET ALLEGATIONS

¶9 A trade secret plaintiff must own information that is secret and valuable to competitors in order to claim that a defendant has misappropriated that information.¹ This is because defendants – typically former employees – are entitled in their future endeavors to use information in the public domain, as well as the general skills, knowledge, and experience gained from their past employers.² Under the trade secret laws, a plaintiff has the burden of proof not only to establish that a secret exists, but also to identify the alleged secret with a degree of particularity that allows the defendant (and the court) to ascertain whether or not the information is a secret or is instead in the public domain.³

¶10 Be this as it may, the everyday reality of trade secrets litigation is that the *de facto* burden of proof is placed upon the defendant, not the plaintiff, to establish that an alleged trade secret does not exist because the information is in the public domain.⁴ In turn, a common and related feature of trade secrets lawsuits is that the defendant must file a motion to force the plaintiff to identify its alleged secrets in a precise enough manner so

1. See, e.g., CAL. CIV. CODE § 3426.1(d)(1) (West 2003) (California UTSA provision defining a trade secret as secret information with “independent economic value”). Although the most obvious sense of trade secret ownership is that the information cannot be in the public domain, trade secret plaintiffs must also own the information at issue in the traditional property sense. Parties lack standing to sue over trade secrets owned by others. See *Omnitech Int'l, Inc. v. Clorox Co.*, 11 F.3d 1316, 1323 (5th Cir. 1994) (affirming finding that plaintiff lacked standing where it did not own alleged secrets); *Venango River Corp. v. Nipsco Indus., Inc.*, 1994 WL 702759, at *9-10 (N.D. Ill. 1994) (summary judgment for same reason); cf. *SI Handling Sys., Inc. v. Heisley*, 753 F.2d 1244, 1257 (3d Cir. 1985) (noting that it would “place an artificial constraint on the free market” to allow plaintiff to claim secrets in its vendors' pricing information, who have “every right to disclose” that information to others).

2. The proposition has been expressed in numerous cases, most recently at the time of this writing in *Osler Inst., Inc. v. Forde*, 333 F.3d 832, 838 (7th Cir. 2003) (citing 1955 case for principle) and *Unisource Worldwide, Inc. v. Carrara*, 244 F. Supp. 2d 977, 988 (C.D. Ill. 2003) (citing 1967 case for principle).

3. See, e.g., *IMAX Corp. v. Cinema Tech., Inc.*, 152 F.3d 1161, 1164 (9th Cir. 1998) (noting that a trade secret plaintiff must identify its alleged trade secrets and prove that they are secret).

4. While it is difficult to prove this proposition empirically, two considerations may suffice. First, the author has participated in the defense of numerous trade secret cases, and in each the plaintiff merely declared its information to be secret without research while the defendant undertook the work to prove nonsecrecy. Second, the sheer number of cases nationwide where defendants have proven alleged secrets to be nonsecret by submitting public domain material into evidence is circumstantial evidence that defendants typically do the work.

that the defendant can understand what each secret is alleged to be.⁵

¶ 11 These problems can be illustrated by reference to the number of cases nationwide dealing with alleged secrets that were clearly in the public domain, as well as the cases where a plaintiff failed to supply a specific identification of its alleged secrets. There are scores of such decisions, if not many more, in case law research databases – far too many to list in this article. Some recent examples include a California plaintiff that claimed secrets in the titles of its own publications,⁶ an Illinois plaintiff that claimed secret customer identities when they could be obtained “in the yellow pages,”⁷ and a Texas plaintiff that claimed secrets in the identities of customers in a market where participants “freely disclose the identity” of such customers.⁸

¶ 12 Because most trade secret lawsuits settle or do not result in published opinions, it is likely that businesses are forced to defend against overbroad trade secret allegations far more often than is reflected in the reported decisions. For example, the author has witnessed several instances where plaintiffs alleged trade secrets in material that should not have been litigated. In one case the plaintiff claimed as secret a hardware engineering process, and submitted documents from the inventor as evidence. One document that included all the relevant information had a title that looked like the title of an article. An Internet search of that title revealed that the inventor had presented the paper at a public trade show many months before the alleged misappropriation. In another, a plaintiff claimed a trade secret in the identities of customers for a software product, when those customers regularly attended trade shows related to that software and met with many competitors in the field, and where the customers advertised their existence on the Internet. In all of these cases, and others, defendants who had hired the plaintiffs’ former employees were forced to spend huge sums to defend against these allegations. In each, the plaintiff could have conducted a simple pre-lawsuit investigation to recognize the absence of a colorable claim.

¶ 13 The problem is compounded by the typical trade secret plaintiff’s expert witness report. There is an important difference in substance between the typical defense expert report, which usually contains voluminous citations to public domain material, and plaintiffs’ expert reports. The latter are generally short and consist of a statement by the expert that he or she has long experience in the field and believes that the plaintiff’s information constitutes trade secrets. Public domain material is rarely cited, and plaintiff’s expert witnesses rarely (if ever) canvass the public domain.⁹ Although many

5. See, e.g., *Del Monte Fresh Produce Co. v. Dole Food Co., Inc.*, 148 F. Supp. 2d 1322, 1325 (S.D. Fla. 2001) (generalized descriptions of fruit treatment ideas too general to permit discovery to go forward); *Porous Media Corp. v. Midland Brake, Inc.*, 187 F.R.D. 598, 600 (D. Minn. 1999) (same for general descriptions of ideas related to brake canister product).

6. See *Computer Econs, Inc. v. Gartner Group, Inc.*, 1999 WL 33178020, at *6 (S.D. Cal. 1999).

7. See *Delta Med. Sys. v. Mid-America Med. Sys., Inc.*, 772 N.E.2d 768, 781 (Ill. App. Ct. 2002).

8. See *Guy Carpenter & Co., Inc. v. Provenzale*, 334 F.3d 459, 468 (5th Cir. 2003).

9. As an example, the author participated in one case where the plaintiff declared a set of alleged secrets, hired an expert to opine as to their secrecy, and gave him a handful of published papers to review – which of course did not contain the alleged secrets. The expert declared the information secret in a written

experts are university professors, it almost goes without saying that trade secret expert witness reports filed under seal do not undergo the pre-publication peer review to which scholarly technical articles are subjected. Courts can reject expert testimony as unreliable in such cases, but it appears that such rulings are rare.¹⁰

¶ 14 In light of the published case law and personal experience, the inescapable conclusion is that trade secrets plaintiffs rarely conduct a pre-lawsuit investigation into the secrecy of the information they accuse defendants of misappropriating. The implication is that trade secrets plaintiffs do so because they recognize that there will be no consequences for claiming secrets in publicly available information – the courts appear to have accepted as *fait accompli* that defendants, not plaintiffs, bear the burden of demonstrating that information does not constitute a trade secret. The result is that a large company can sue a smaller competitor that has hired its employees and raise trade secret claims that are not colorable, face little risk of sanction, and impose a Pyrrhic victory on its rival, who may be forced to spend a significant portion of its available capital to defeat or settle the claim.¹¹

¶ 15 As noted above, these problems are not just a matter of concern for private litigants. A legal regime that permits trade secret plaintiffs to pursue litigation without having first investigated the veracity of its claims threatens the interest in permitting employees to change jobs freely and the interest in allowing competitive businesses full use of the public domain. This is so because plaintiffs who allege overbroad trade secret claims can make hiring an employee from a competitor or using public information prohibitively expensive. There are important public interests at stake in the rules governing trade secret law.

¶ 16 There is a simple solution to the problems caused by overbroad trade secret allegations, similar to what is already required in patent infringement lawsuits, which could reduce these problems and put the burden of proof to establish secrecy back where

report, and then testified in deposition that his only public domain research was a review of the papers the plaintiff's attorneys had given him.

10. It appears that only one published decision discusses this problem. In *Atmel Corp. v. Information Storage Devices, Inc.*, 189 F.R.D. 410, 416 (N.D. Cal. 1999), the court chastised a plaintiff's trade secret expert for employing an "insufficient and unreliable" methodology. The expert had never reviewed the public domain or consulted colleagues before declaring his belief that the alleged secrets were secret. When confronted with the defendant's expert report, which contained numerous public domain citations, the plaintiff's expert failed to read all of them and reiterated his belief that the information constituted trade secrets. The court punished this "ignorance is bliss strategy" by barring the expert from testifying that the information was not generally known or was secret, and allowed him merely to testify about his personal knowledge of whether the alleged secrets were known.

11. The situation is analogous to that with spoliation of evidence. As one writer has theorized, a rational defendant willing to break the rules faces little risk of punishment for spoliating evidence, and the existing legal regime therefore actually provides incentives for destroying harmful evidence. Even when defendants are caught spoliating evidence, courts have been reluctant to impose sanctions. *See generally* Charles R. Nesson, *Incentives to Spoliate Evidence in Civil Litigation: The Need for Vigorous Judicial Action*, 13 CARDOZO L. REV. 793 (1991). The current regime in trade secret law similarly provides incentives for anticompetitive plaintiffs to run up a smaller defendant's costs through trade secret accusations based on information in the public domain. The risk of punishment is extremely low.

it belongs – with the plaintiff. The sections that follow will analyze the state law statutes that allow for attorneys’ fees for bad faith trade secret allegations, and explain how these provisions can provide the springboard for requiring a pre-lawsuit secrecy investigation.

III. THE STATE LAW STATUTES THAT PENALIZE BAD FAITH TRADE SECRET ALLEGATIONS

¶ 17 The solution to the problem of the trade secret plaintiff who fails to conduct a pre-lawsuit secrecy investigation lies in the fee-shifting statutes that thirty-nine states and the District of Columbia have enacted under the Uniform Trade Secrets Act. The UTSA is a standardized set of definitions and rules for trade secret causes of action, and forty states have adopted it in one form or another since the 1970s.¹² Each state’s bad faith statute tracks the UTSA’s language and allows for attorney’s fees when “a claim of misappropriation is made in bad faith[.]”¹³

¶ 18 Before the widespread adoption of the UTSA from the mid 1980s to the early 1990s, there were no established remedies for meritless trade secrets lawsuits, and cases addressing the problem were rare.¹⁴ In some cases, defendants filed a counterclaim

12. See Roger Milgrim, MILGRIM ON TRADE SECRETS § 1.01[2] (2002) (describing origins and development of UTSA and explaining the versions adopted by most states). There is little commentary in the official comments to the UTSA drafts on the bad faith provision (quoted in the Milgrim treatise) and none that explains its intended scope.

13. Thirty-nine states and the District of Columbia have statutes authorizing a fees award to trade secrets defendants where the lawsuit was brought in bad faith. See ALA. CODE § 8-27-4(2)(a) (2003); ARIZ. REV. ST. § 44-404(1) (2003); ARK. CODE ANN. § 4-75-607(1) (Michie 2003); CAL. CIV. CODE § 3426.4 (West 2003); COLO. REV. STAT. § 7-74-105 (2003); CONN. GEN. STAT. § 35-54 (2003); DEL. CODE ANN. tit. 6, § 2004 (2003); D.C. CODE ANN. § 36-404(1) (2003); FLA. STAT. ch. 688.005 (2003); GA. CODE ANN. § 10-1-764 (2003); HAW. REV. STAT. § 482B-5(1) (2002); 765 ILL. COMP. STAT. 1065/5(i) (2003); IND. CODE § 24-2-3-5(1) (2003); IOWA CODE § 550.6(1) (2003); KAN. STAT ANN. § 60-3323(i) (2002); KY. REV. STAT. ANN. § 365.886 (2003); LA. REV. STAT. ANN. § 51:1434 (2003); ME. REV. STAT. ANN. tit. 10, § 1545 (West 2003); MD. CODE ANN., COM. LAW § 11-1204(1) (2003); MICH. COMP. LAWS § 445.1905 (2003); MINN. STAT. § 325C.04(i) (2003); MISS. CODE ANN. § 75-26-9(a) (2003); MONT. CODE ANN. § 30-14-405 (2002); NEV. REV. STAT. 600A.060(1) (2002); N.H. REV. STAT. ANN. § 350-B:4(I) (2002); N.M. STAT ANN. § 57-3A-5(1) (2003); N.C. GEN. STAT. § 66-154(d) (2003); N.D. CENT. CODE § 47-25.1-04 (2003); OHIO REV. CODE ANN. § 1333.64(A) (West 2003); OKLA. ST. tit. 78 § 89(1) (2003); OR. REV. STAT. § 646.467(1) (2003); R.I. GEN LAWS § 6-41-4(a) (2002); S.C. CODE ANN. § 39-8-80(1) (2002); S.D. CODIFIED LAWS § 37-29-4(i) (Michie 2003); TENN. CODE ANN. § 47-25-1705(1) (2003); UTAH CODE ANN. § 13-24-5 (2003); VA. CODE ANN. § 59.1-338.1(i) (Michie 2003); WASH. REV. CODE § 19.108.040 (2003); W. VA. CODE § 47-22-4(a) (2003); WIS. STAT. § 134.90(4)(c) (2003); see also Linda B. Samuels & Bryan K. Johnson, *The Uniform Trade Secrets Act: The States’ Response*, 24 CREIGHTON L. REV. 49, 83-84 (1990) (explaining minor differences in some states’ bad faith statutes). Texas allows fees for victims of criminal trade secret theft, but has no statute for civil trade secrets defendants. See TEX. CIV. PRAC. & REM. CODE ANN. § 134.005 (Vernon 2003) (general theft statute awarding fees to prevailing parties); *IBP, Inc. v. Klump*, 101 S.W.3d 461, 472 (Tex. App. 2001) (holding that statute applies for victims of trade secret theft); see also *Intermedics, Inc. v. Ventritex, Inc.*, 152 F.R.D. 188, 191 (N.D. Cal. 1993) (case apparently decided under Texas law where jury ruled on whether plaintiff brought claim in bad faith). Ten states have no such statute: Alaska, Idaho, Massachusetts, Missouri, Nebraska, New Jersey, New York, Pennsylvania, Wyoming, and Vermont.

14. Not long before the UTSA was proposed, one author proposed that a specific counterclaim for bad faith trade secrets claims be recognized. See Elizabeth Smith, Comment, *Eliminating Predatory*

alleging that the plaintiff filed suit in bad faith, or more generally sought a finding of bad faith.¹⁵ In others, a particular body of law developed around antitrust counterclaims for bad faith trade secret accusations raised in pursuit of a monopoly.¹⁶ By contrast, courts more commonly permitted fees for prevailing plaintiffs in trade secrets lawsuits,¹⁷ and the UTSA codified that body of law, which allows fees for plaintiffs in cases of “willful and malicious” misappropriation.¹⁸

¶ 19 In the years following the adoption of the UTSA, cases where defendants sought fees still appear to have been few and far between, with cases where fees were actually awarded even less frequent. In addition, and as discussed below, courts have struggled with the bases on which bad faith might be established. In turn, the leading treatises on

Litigation in the Context of Baseless Trade Secret Claims: The Need For a More Aggressive Counterattack, 23 SANTA CLARA L. REV. 1095, 1096 (1983) (noting the anticompetitive goals of many trade secret lawsuits and advocating the recognition of “a new cause of action ... as a business tort under the unfair competition laws” that would operate as a counterclaim during a trade secret lawsuit). This article appears to be the only other full-length treatment of bad faith trade secrets lawsuits that goes beyond the antitrust context. It does not, however, focus on the public domain aspects of meritless trade secret claims, and its proposed solution – which would force a defendant to litigate and prove a claim with several elements – is far more cumbersome than simply focusing on whether a trade secret plaintiff bothered to ascertain whether its alleged secrets were in the public domain before filing suit.

15. See *Ellicott Machine Corp. v. Wiley Mfg. Co.*, 297 F. Supp. 1044, 1055 (D. Md. 1969) (refusing to award fees to defendant where plaintiff had made overbroad trade secret claims because defendant had misappropriated some trade secrets and had lied to the plaintiff and thus had unclean hands); *Gordon Employment, Inc. v. Jewell*, 356 N.W.2d 738, 742 (Minn. Ct. App. 1984) (refusing to award fees even though the plaintiff admitted to not maintaining the secrecy of the information at issue); *Gallowhur Chem. Corp. v. Schwerdle*, 117 A.2d 416, 429-30 (N.J. Super. Ct. Ch. Div. 1955) (rejecting defendant’s bad faith counterclaim where plaintiff’s trade secret claims were colorable under facts that included conflicting testimony on independent derivation and whether a prior release covered the trade secret claims); *Holland Dev., Ltd. v. Manufacturers Consultants, Inc.*, 724 P.2d 844, 850 (Or. Ct. App. 1986) (finding plaintiff did not act in bad faith, but no discussion of procedural means by which defendant raised the issue and no substantive discussion).

16. See *CVD, Inc. v. Raytheon Co.*, 769 F.2d 842, 851 (1st Cir. 1985) (finding party liable under antitrust law for bad faith assertion of trade secrets). *But see Frosty Bites, Inc. v. Dippin’ Dots, Inc.*, 2003 WL 21196247, at *8 (N.D. Tex. May 19, 2003) (rejecting antitrust counterclaim even though trade secret claims failed). See generally Richard M. Brunell, *Sham Litigation Claims May Yet Survive* Columbia Pictures, 8 ANTITRUST 33 (1994) (describing caselaw affecting antitrust bad faith law and noting harms to small businesses from trade secret lawsuits); Michael D. Oliver, Comment, *Antitrust Liability for Bad Faith Assertion of Trade Secrets*, 18 U. BALT. L. REV. 544, 560 (1989) (noting that part of an antitrust counterclaim is proving that a trade secrets plaintiff knew that no secrets existed).

17. Pre-UTSA cases addressing the issue of attorneys’ fees for trade secret plaintiffs include *A.H. Emery Co. v. Marcan Prod. Corp.*, 268 F. Supp. 289, 302 (S.D.N.Y. 1967) (inviting parties to submit testimony on attorneys’ fees after plaintiff prevailed on trade secret claim), and *Irving Iron Works v. Kerlow Steel Flooring Co.*, 126 A. 291, 293 (N.J. 1924) (awarding plaintiff fees). These and many others are collected in Michael A. Rosenhouse, Annotation, *Proper Measure and Elements of Damages for Misappropriation of Trade Secret*, 11 A.L.R.4th 12, § 37 (1982).

18. Every state that adopted the UTSA’s fee-shifting statute included the provision allowing fees for prevailing plaintiffs in certain cases. See *supra* note 13 (listing state statutes). While not the subject of this article, courts do apply that portion of the statute. See, e.g., *Zawels v. Edutronics, Inc.*, 520 N.W.2d 520, 524 (Minn. Ct. App. 1994) (awarding fees under Minnesota statute); *Frantz v. Johnson*, 999 P.2d 351, 362 (Nev. 2000) (awarding fees under Nevada statute); *Baker Indus., Inc. v. Gould*, 553 S.E.2d 227, 231 (N.C. Ct. App. 2001) (awarding fees under North Carolina statute, but remanding over basis for fee calculation).

trade secret law have not explored these problems.¹⁹

¶20 Courts applying California trade secrets law have addressed the bad faith statute more than any others, and have subjected trade secrets plaintiffs to tougher standards than have courts in many other jurisdictions. This is not surprising. California courts handle a high volume of trade secrets lawsuits – in part because of Silicon Valley’s cluster of high-technology ventures – and California has historically provided more protection for employees changing jobs and for trade secret defendants than any other jurisdiction.²⁰

¶21 California courts have held that bad faith under the UTSA statute requires an objective and a subjective analysis of a trade secret plaintiff’s allegations. Under this test, a claim is subjectively specious when the plaintiff knows (or is reckless in not knowing) that its claim is meritless, and it is objectively specious when there is a complete lack of evidence to support the claim.²¹ The standard is lower than the requirement for imposing ordinary civil sanctions, and frivolousness need not be demonstrated.²²

¶22 Courts applying California law have found trade secret plaintiffs in bad faith for claims where the plaintiff itself should have known that it had released the allegedly secret information into the public domain,²³ or where it otherwise knew that the allegedly

19. See generally James Pooley, TRADE SECRETS § 7.03[4] (2003) (noting statute and citing some cases); Melvin F. Jager, TRADE SECRETS LAW § 7.25 (2003) (same and discussing holding of one California case in detail); Louis Altman, 4 CALLMANN ON UNFAIR COMPETITION, TRADEMARKS, AND MONOPOLIES § 23:59 (2001) (brief mention of attorneys’ fees in trade secret cases); Continuing Education of the Bar, TRADE SECRETS PRACTICE IN CALIFORNIA § 12.23 (2002) (noting statute and citing some cases).

20. California statutes and cases providing heightened protections in trade secret lawsuits include CAL. CIV. PROC. CODE § 2019(d) (requiring pre-discovery identification of alleged secrets), CAL. BUS. & PROF. CODE § 16600 (held to prohibit ordinary noncompetition agreements), *Continental Car-Na-Var Corp. v. Moseley*, 148 P.2d 9, 12-13 (Cal. 1944) (rejecting early version of “inevitable disclosure” theory and holding that employees may quit and compete against former employer absent use of trade secrets), *Sargent Fletcher, Inc. v. Able Corp.*, 3 Cal. Rptr. 3d 279, 286-87 (Cal. Ct. App. 2003) (independent derivation and reverse engineering are not affirmative defenses, and plaintiff retains burden of proof on wrongful use or disclosure), and *Whyte v. Schlage Lock Co.*, 125 Cal. Rptr. 2d 277, 290-94 (Cal. Ct. App. 2002) (holding the “inevitable disclosure” theory inapplicable in California).

21. See *Gemini Aluminum Corp. v. California Custom Shapes, Inc.*, 95 Cal. App. 4th 1249, 1261-62 (Cal. Ct. App. 2002) (setting forth standard); see also *FAS Techs., Ltd. v. Dainippon Screen Mfg., Ltd.*, 2001 WL 1159776, at *3 (N.D. Cal. 2001); *Computer Econs, Inc. v. Gartner Group, Inc.*, 1999 WL 33178020, at *6-7 (S.D. Cal. 1999); *VSL Corp. v. General Techs., Inc.*, 46 U.S.P.Q.2d 1356, 1359 (N.D. Cal. 1998); *Alamar Biosciences, Inc. v. Difco Labs., Inc.*, 40 U.S.P.Q.2d 1437, 1438 (E.D. Cal. 1996); *Stilwell Dev., Inc. v. Chen*, 11 U.S.P.Q.2d 1328, 1331 (C.D. Cal. 1989) (creating objective/subjective analysis).

22. See *Gemini*, 95 Cal. App. 4th at 1262.

23. See *Computer Econs*, 1999 WL 33178020, at *6 (plaintiff claimed secrets in titles of newsletters it had disclosed to the public); *VSL Corp.*, 46 U.S.P.Q.2d at 1359 (bad faith to claim secrets in product already marketed and information freely disclosed by plaintiff); *Chen*, 11 U.S.P.Q.2d at 1331 (bad faith to assert secrets in a product already sold to customers before alleged misappropriation); see also *Coast Bus. Sys., Inc. v. Armdap, Inc.*, 2001 WL 1324745, at *4-5 (Cal. Ct. App. 2001) (unpublished decision) (affirming fees upon vivid evidence of unfair tactics and a trade secret claim that the plaintiff “never believed” was secret and that it had publicly advertised on a brochure).

secret information lacked economic value.²⁴ They have also found bad faith for refusing to specifically identify the alleged trade secrets at issue, for pursuing claims when the statute of limitations had passed, and for pursuing a claim when it was clear that the defendant's alleged misappropriation had not injured the plaintiff.²⁵ Only a few reported California rulings have denied fees to prevailing trade secret defendants.²⁶

¶²³ Still, these decisions establish only that bad faith exists where a plaintiff *possessed the knowledge* that its information does not constitute a trade secret. No published decision has yet addressed the question whether a plaintiff is required to actively seek available information to test whether its information is in fact a trade secret. However, an unpublished California appellate ruling in 2003 found bad faith where, among other things, the plaintiff had shown “a lack of diligence” in investigating whether its trade secret claim had merit before filing suit.²⁷

¶²⁴ Decisions under the UTSA bad faith statute in other jurisdictions have not been, for the most part, favorable for trade secret defendants. This is not particularly surprising; the statute itself provides little guidance, and individual courts may not play host to trade secret lawsuits on a sufficiently frequent basis to recognize the problem of plaintiffs’

24. See *Gemini*, 95 Cal. App. 4th at 1263 (suit was “objectively specious, if not frivolous, from its inception” where plaintiff accused defendant of stealing secret information that it knew had lost any value, “actual or potential,” that it might have once had); see also *Hardie’s Korn Kettle, Inc. v. Metrovox Snacks*, 2003 WL 21640642, at *11-12 (Cal. Ct. App. 2003) (unpublished decision) (suit objectively specious where plaintiff had no evidence to establish damages element and had been informed to that effect).

25. See *Alamar*, 40 U.S.P.Q.2d at 1443-44 (bad faith where plaintiff’s trade secret claim was clearly time-barred, and where the information necessary to trigger an investigation into a potential trade secret claim was easily available on an electronic database before the statute ran); *Computer Econs*, 1999 WL 33178020, at *6-7 (plaintiff’s refusal to identify its alleged secrets when pressed to do so by defendant was part of the evidence on which the court based its finding of subjective speciousness); *FAS*, 2001 WL 1159776, at *3 (bad faith to pursue trade secret claim once plaintiff learned that defendant had not sold product to particular third party and thus had not caused plaintiff injury). In a more obvious case of misconduct, a California court noted that fees had been awarded under the statute because the plaintiff based its claims on documents that it knew were not authentic. See *Computer Prepared Accounts, Inc. v. Katz*, 235 Cal. App. 3d 428, 431 (Cal. Ct. App. 1991).

26. See *Forcier v. Microsoft Corp.*, 123 F. Supp. 2d 520, 529 (N.D. Cal. 2000) (denying fees even though plaintiff and another company had publicly disclosed the information at issue before one defendant ever acquired it under the unsound rationale that the plaintiffs “presented evidence to support their claims and vigorously pursued them. There is no evidence to suggest that plaintiffs lacked confidence in the merit of their claims”); *Transmedia Network, Inc. v. Countrywide Bus. Alliance, Inc.*, 2002 WL 31151623, at *12 (Cal. Ct. App. 2002) (unpublished decision) (no bad faith under objective/subjective analysis where plaintiff failed to prove use, but defendant had admitted that some information learned at former employer was “confidential”; no discussion of pre-lawsuit secrecy investigation); *Semans Comm., Inc. v. C.H. Reynolds Elec., Inc.*, 2002 WL 1935290, at *8-10 (Cal. Ct. App. 2002) (unpublished decision) (reversing fee award and finding that plaintiff had basis for claims because of circumstantial evidence of theft, but no discussion of pre-lawsuit secrecy investigation).

27. See *Beer & Wine Serv., Inc. v. Dumas*, 2003 WL 1194725, at *8 (Cal. Ct. App. 2003) (unpublished decision) (finding plaintiff in bad faith under objective and subjective analysis, including a finding that plaintiff was subjectively in bad faith for “a lack of diligence in determining whether the misappropriation claim had merit” before the lawsuit, where attorney claimed to have consulted a software expert before lawsuit but 18 months later only had an expert conclude that it would “not be cost effective” to compare the two programs at issue).

shifting the burden of disproving secrecy to the defendant.

¶ 25 Some courts have defined “bad faith” in a manner that separates it from an objective inquiry into the strength of the plaintiff’s evidence,²⁸ or that makes it something so rare that even a finding of “legal malice” is insufficient to establish bad faith.²⁹ The reported cases outside California have often allowed plaintiffs to avoid paying attorneys’ fees even where, to an outside observer, it seems clear that the plaintiff knew or should have known that the information at issue was in the public domain.³⁰ Some seem to have assumed that because the alleged trade secrets were highly technical, or because the defendants previously worked for the plaintiff, the claim must have been colorable, and several others have engaged in similar questionable reasoning.³¹

28. See *Green Bay Packaging, Inc. v. Preferred Packaging, Inc.*, 932 P.2d 1091, 1098-99 (Okla. 1996) (awarding fees where plaintiff’s “intent” was to drive defendant out of business, but asserting that bad faith involves only intent, and “does not involve the quality or the quantity of the evidence presented”). If applied literally, this statement would divorce the bad faith inquiry from the question whether the evidence presented was easily available in the public domain.

29. See *Reichhold Chem., Inc. v. Goel*, 555 S.E.2d 281, 294 (N.C. Ct. App. 2001) (refusing to award fees even though court in separate ruling found that plaintiff acted with legal malice in bringing suit; holding that a party acting with malice could still believe that suit has a “legitimate basis”).

30. See *McKesson Med.-Surgical, Inc. v. Micro Bio-Medics, Inc.*, 266 F. Supp. 2d 590, 2003 WL 21354612, at *6 (E.D. Mich. 2003) (refusing fees because there was no “clear evidence” that plaintiffs acted in bad faith; cursory discussion despite prevailing defendant’s assertions that plaintiff had no evidence to support the elements of a trade secret claim and had given out the allegedly secret information to third parties without restriction); *Young Design, Inc. v. Teletronics Int’l, Inc.*, 2002 WL 1586986, at *1 (4th Cir. 2002) (unpublished decision) (refusing fees in case where plaintiff apparently sold its product to defendant without restriction and defendant made a similar product; court affirmed district court’s holding that the claim had survived pretrial motions; no discussion of pre-lawsuit secrecy investigation); *Tritec Assoc., Inc. v. Stiles Machinery, Inc.*, 48 Va. Cir. 40, 1999 WL 33271, at *3 (Va. Cir. Ct. 1999) (refusing to award fees even though plaintiff failed to maintain the alleged secrecy of its customer information, on the superficial grounds that the plaintiff had a “good faith reason” to sue because the defendant likely used that apparently non-secret information; no discussion of a pre-lawsuit secrecy investigation).

31. *Ex parte Waterjet Sys., Inc.*, 758 So.2d 505, 509-10 (Ala. 1999) (holding that bad faith under the Alabama statute means “without substantial justification,” and finding plaintiff who dismissed its cause of action had not brought claim in bad faith because files were missing from its former employee’s office and his computer contained plans for a new business; no secrecy analysis and no discussion as to whether plaintiff was required to investigate the alleged secrecy of the information); *Hardwick Airmasters, Inc. v. Lennox Indus., Inc.*, 78 F.3d 1332, 1338 (8th Cir. 1996) (court refused fees under the Arkansas statute even though plaintiff had released its alleged secrets into the public domain because plaintiff’s attorneys claimed to have undertaken a pre-lawsuit investigation and to have relied on a badly-reasoned 1953 Second Circuit case that appears to have permitted trade secret liability for information in the public domain; court found the attorney’s argument “strained” but accepted it nonetheless); *Research & Trading Corp. v. Pfuhl*, 1992 WL 345465, at *15-16 (Del. Ch. 1992) (unpublished decision) (refusing fees with no analysis and the questionable comment that “[i]n light of the technical nature of the plaintiff’s business and its dependence upon intellectual property, the trade secret claims had some force and were not in my opinion advanced in bad faith”); *Optic Graphics, Inc. v. Agee*, 591 A.2d 578, 589 (Md. Ct. Spec. App. 1991) (questionable finding that bad faith began after the plaintiff learned that it had forged a confidentiality agreement with former employee, but finding that the plaintiff had a “colorable claim when it initiated its suit” because the defendant had joined a new company and “conceivably could use” the information alleged to be secret; no discussion of a pre-lawsuit secrecy investigation); *Colorado Supply Co., Inc. v. Stewart*, 797 P.2d 1303, 1307 (Colo. Ct. App. 1990) (refusing fees even though information found nonsecret and plaintiff never told independent contractor that the information “was to be preserved”; in questionable reasoning, the court

¶26 For example, a Delaware court decided that because the plaintiff's business was technical and depended on intellectual property, there was no bad faith in a trade secret claim that the plaintiff dismissed after trial.³² A Colorado court once held that because the general category of the plaintiff's alleged secrets – a customer list – could constitute a trade secret, there was no bad faith even though the information was not secret and the defendant had never been told to treat it as confidential.³³ A Maryland court held that the plaintiff did not act in bad faith in filing suit because the defendant had joined a competitor and “conceivably” might use alleged secrets, and only found bad faith for the plaintiff's forgery of a document.³⁴ And a court in Arkansas found no bad faith even though the plaintiff had apparently filed suit knowing that its alleged secrets were in the public domain; the court accepted the explanation that the plaintiff's attorney had relied on a 1953 case from another jurisdiction that appeared to hold that nonsecret information could supply the basis for a trade secret claim, even though that theory is inconsistent with the UTSA.³⁵

¶27 Not all the decisions nationwide have been as problematic. A Maryland court adopted California's objective/subjective analysis and found trade secret plaintiff in bad faith where the plaintiff had itself disclosed the allegedly secret information.³⁶ Courts in Oregon and Wisconsin have found bad faith for refusing to identify alleged secrets and a plaintiff's failure, when pressed, to identify anything not in the public domain or to tell a coherent story of misappropriation.³⁷ And several other courts have awarded or denied fees on grounds that appear reasonable and sound.³⁸

inexplicably held that plaintiff “introduced sufficient evidence to demonstrate that the alleged trade secrets were valuable,” and held that because customer lists can qualify as trade secrets, the plaintiff presented “credible evidence” for its claims despite failing to establish a prima facie case).

32. *Research & Trading Corp.*, 1992 WL 345465, at *15-16. It is unclear why the claim failed, but the court's reasoning on bad faith would not be persuasive no matter what the flaws in the claim were.

33. *Colorado Supply Co.*, 797 P.2d at 1307.

34. *Optic Graphics*, 591 A.2d at 589.

35. *Hardwick Airmasters*, 78 F.3d at 1338.

36. *Contract Materials Processing, Inc. v. Katalena GMBH Catalysts, Inc.*, 222 F. Supp. 2d 733, 747-48 (D. Md. 2002) (adopting the California objective/subjective test under Maryland's statute and finding plaintiff in bad faith for pursuing a trade secret claim where it had transferred the information to the defendant in a signed agreement without any confidentiality provision, refused to try to prove secrecy, and engaged in improper litigation tactics; no discussion of pre-lawsuit secrecy investigation).

37. *See Telephone Management Corp. v. Gillette*, 2001 WL 210179, at *3 (D. Or. 2001) (fees awarded and plaintiff found to have acted without an objectively reasonable basis for its trade secret accusations under Oregon statute where it failed to identify a secret or tell a coherent story of misappropriation; court found that the plaintiff “has not articulated any supportable reasons for believing at the commencement of this lawsuit” that defendant acted wrongfully; discussion of pre-lawsuit secrecy investigation); *Automated Packaging Sys., Inc. v. Sharp Packaging, Inc.*, 1989 WL 223755, at *9 (E.D. Wis. 1989) (awarding fees under Wisconsin statute where plaintiff acted in bad faith by filing allegations and seeking injunction but failing to identify any alleged secrets and then identifying only information in the public domain).

38. *See Wixon Jewelers, Inc. v. Aurora Jewelry Designs*, 2002 WL 1327014, at *2-3 (Minn. Ct. App. 2002) (unpublished decision) (reversing fee award under Minnesota UTSA where plaintiff's case had survived summary judgment, but no discussion of pre-lawsuit secrecy investigation); *Ameripack, Inc. v. ILC Dover, Inc.*, 1999 WL 669315, at *4 (Del. Ch. 1999) (unpublished decision) (denying defendant fees where plaintiff, despite losing, “had the results of an independent testing laboratory to lend some support to

¶28 Nonetheless, none of the decisions outside California have even hinted at requiring a pre-lawsuit secrecy investigation, even though the plaintiffs in several cases claimed nonsecret information as trade secrets. The following section will describe how such a requirement might be imposed under the UTSA bad faith provisions, and will return to some of these bad faith decisions to illustrate how they would have been better (and more easily) decided had a requirement to conduct a pre-lawsuit inquiry been in place.

IV. THE SOLUTION: REQUIRING A PRE-LAWSUIT SECRECY INVESTIGATION

¶29 For well over a century, trade secret plaintiffs have been able to file a lawsuit against a competitor or former employee and accuse the defendant of misappropriating information without first researching whether that information is in the public domain. The scores of published cases over the decades where defendants showed that the information at issue was easily found in publicly available sources are a testament to the problem of meritless trade secret accusations. With a heightened awareness today of the need to protect the public domain for the important social interests it furthers, it is time that courts follow the lead of patent law and require that would-be trade secret plaintiffs conduct a pre-lawsuit investigation into the secrecy of the information they believe they own.

¶30 Given the important public interests at stake – the interest in protecting employees' rights to change jobs without harassing litigation and in furthering the social benefits of vigorous business competition, and the interest in promoting innovation by protecting the public domain – it is time to put some teeth into the UTSA bad faith provisions, and give courts an easily understandable rule to deter baseless trade secret lawsuits.

¶31 A sensible rule would be as follows: in every case where a would-be plaintiff contemplates filing a trade secrets lawsuit, the plaintiff should outline the information it believes the defendant has used (or has manifested a threat to use) and conduct a reasonable investigation into the public domain to ascertain whether the information is really secret. If not, the plaintiff lacks a good faith basis for the lawsuit, and fees should be awarded under the UTSA bad faith provisions where defendants defeat trade secret claims by showing that the information at issue is readily available in the public domain.

its claim”); *Russo v. Baxter Healthcare Corp.*, 51 F. Supp. 2d 70, 75 (D.R.I. 1999) (determining that Rhode Island’s statute requires a showing of subjective bad faith and refusing fees where plaintiff did not know evidence that undermined its claims until trial); *Jackson v. Hammer*, 653 N.E.2d 809, 818 (Ill. App. Ct. 1995) (refusing fees where plaintiff might have had a good faith basis for trade secret accusation); *Clinipad Corp. v. Aplicare, Inc.*, 4 Conn. L. Rptr. 88, 1991 WL 88156, at *2 (Conn. Super. Ct. 1991) (unpublished decision) (finding that bad faith requires a claim that is not colorable and an intent to harass; awarding fees where no evidence of misappropriation was presented as to defendants at issue; no discussion of pre-lawsuit secrecy investigation); *see also Trident Perfusion Assoc., Inc. v. Lesnoff*, 992 F. Supp. 829, 830 (W.D. Va. 1998) (holding that fees under Virginia statute include fees incurred in winning on appeal, but no discussion of reasons for underlying bad faith finding).

¶ 32 This rule would be consistent with a plaintiff's existing burden of proof to establish secrecy and to identify its alleged secrets with reasonable particularity. It would require nothing more than what Federal Rule of Civil Procedure 11 already requires in federal court (where many trade secret cases are filed). And it has a ready analogue in patent law, which requires pre-lawsuit investigations into suspected patent infringement.

A. The Patent Lawsuit Analogy

¶ 33 Patent law provides a useful analogy for requiring a pre-lawsuit investigation into the veracity of potential trade secret claims. In patent law, a plaintiff and its attorneys can be sanctioned under Federal Rule of Civil Procedure 11 if they do not undertake a pre-lawsuit infringement investigation.³⁹ The requirement is stringent – patent attorneys cannot rely on their clients' lay opinions regarding infringement. To the contrary, they must, if possible, obtain a copy of the suspected infringing device and compare it to the patent claims at issue. If necessary, the suspected infringing device must be reverse engineered.⁴⁰

39. In addition to the patent law cases under Rule 11, there are a handful of reported decisions where trade secret defendants sought sanctions against the plaintiff under the Federal Rules. *See* *Compuware Corp. v. Health Care Serv. Corp.*, 2002 WL 485710, at *8 (N.D. Ill. 2002) (awarding fees and Rule 37 sanctions for plaintiff's repeated failure to specifically identify its alleged secrets; plaintiff had pointed to software programs without identifying what was allegedly secret within them); *Vista Mfg., Inc. v. Trac-4, Inc.*, 131 F.R.D. 134, 140-42 (N.D. Ind. 1990) (rejecting request for Rule 11 sanctions against trade secrets plaintiff and holding pre-filing inquiry sufficient despite apparent flaws, and not addressing pre-lawsuit public domain investigation); *McIntyre's Mini Computer Sales Group, Inc. v. Creative Synergy Corp.*, 644 F. Supp. 589, 592 (E.D. Mich. 1986) (declining to impose Rule 11 sanctions where plaintiff "did conduct a reasonable pre-filing inquiry" that led it to believe that defendant possessed stolen and apparently secret information); *Fleming Sales Co., Inc. v. Bailey*, 611 F. Supp. 507, 518-19 (N.D. Ill. 1985) (imposing partial Rule 11 sanctions for trade secret claim that plaintiff should have known involved nonsecret information, but refraining from imposing broader sanctions despite acknowledging anticompetitive goal of meritless lawsuit); *Kamar Int'l, Inc. v. Esterow*, 1985 WL 1915, at *1 (S.D.N.Y. 1985) (defendant moved for Rule 11 sanctions where, among other things, plaintiff allegedly claimed public information as secret, but court denied motion because defendant failed to provide evidence regarding "the public knowledge or availability of such information"). None of these decisions addressed the question of a pre-lawsuit secrecy investigation. Although Rule 11 sanctions would indeed be appropriate for meritless trade secret claims in federal court, it makes more sense to use the UTSA provisions to impose a pre-lawsuit investigation requirement, because using the UTSA provisions would result in uniform application in both state and federal courts of the same standards under the same statute. Non-UTSA state jurisdictions might impose the requirement through general-purpose sanctions statutes.

40. *See* *Network Caching Tech., LLC v. Novell, Inc.*, 2003 WL 21699799, at *6-7 (N.D. Cal. 2003) (noting pre-lawsuit investigation rule where plaintiff failed to reverse engineer accused product and relied only on "indirect" product documentation, but delaying any award of sanctions because case was still ongoing and infringement had not been disproved); *Antonius v. Spalding & Evenflo Cos., Inc.*, 275 F.3d 1066, 1074 (Fed. Cir. 2002) (noting rule and remanding for inquiry into plaintiff's law firm's pre-lawsuit investigation); *View Eng'g, Inc. v. Robotic Vision Sys., Inc.*, 208 F.3d 981 (Fed. Cir. 2000) (imposing sanctions on defendant attorney where defendant failed to compare patent to accused device and filed counterclaim knowing of plaintiffs' advertising and statements made to customers); *Ultra-Temp Corp. v. Advanced Vacuum Sys., Inc.*, 189 F.R.D. 17, 24-25 (D. Mass. 1999) (imposing sanctions where plaintiff filed suit on learning that defendant, which had refused to license the plaintiff's patent, sold a similar product); *Judin v. United States*, 110 F.3d 780, 784 (Fed. Cir. 1997) (imposing sanctions on plaintiff and attorneys who failed to compare the accused devices with the patent before filing suit; post-filing

¶34 For example, one plaintiff was sanctioned under Rule 11 when it filed patent infringement claims having read only the defendant's advertising and promotional materials – the plaintiff never inspected the defendant's product to compare it against each claim of the patent at issue.⁴¹ In another decision, a plaintiff's attorneys were sanctioned for accepting their client's word that the accused product was infringing, without conducting an independent investigation.⁴² Another plaintiff made no pre-lawsuit investigation at all and failed to either reverse engineer the accused product or ask the defendant for copies of its technology for inspection.⁴³

¶35 The courts have also established limits for the imposition of Rule 11 sanctions in patent cases by holding that some plaintiffs conducted adequate pre-lawsuit infringement investigations. In one case, a plaintiff conducted testing on some of the defendant's products, and although the plaintiff was not entirely sure how the defendant prepared its material, it had a good faith belief that the defendant used a substance called for in the plaintiff's patent.⁴⁴ In another, the plaintiff had a drug manufacture patent. The defendant would not release its process to the plaintiff and only released product samples; reverse engineering failed to determine whether the patented process had been employed. The plaintiff then filed suit, but candidly explained its inquiry in its complaint and stated that it sought discovery in order to confirm its belief that the defendant was infringing. The plaintiff later dismissed its case, but the court did not impose sanctions – it held that the pre-lawsuit investigation was sufficient under the circumstances, and the Federal Circuit affirmed.⁴⁵

¶36 Although the elements of a patent infringement claim are different from those of a trade secret misappropriation claim, patent law provides an appropriate analogy for requiring trade secret plaintiffs to conduct a pre-lawsuit secrecy investigation. In both cases, there is a danger that an anticompetitive plaintiff can misuse the legal process to impose substantial costs on a business rival. In both cases, the plaintiff frequently has the ability to test its suspicions before filing suit. Also, there is no reason that a plaintiff's election to maintain information as a potential trade secret instead of trying to patent it

investigation not sufficient); *S. Bravo Sys., Inc. v. Containment Techs. Corp.*, 96 F.3d 1372, 1375 (Fed. Cir. 1996) (remanding for sanctions where plaintiff's attorneys relied on client's "lay opinion" and failed to conduct an independent analysis comparing the patent to the accused produce); *Refac Int'l, Ltd. v. Hitachi Ltd.*, 141 F.R.D. 281, 286 (C.D. Cal. 1991) (imposing sanctions where patent plaintiff "assumed without justification that all of the accused products violated one or more of its patents, but made no reasonable (or any) investigation to confirm this"; plaintiff failed to reverse engineer accused products or "[a]s an alternative, [demand] circuit diagrams from defendant, their vendors, or the supplier").

41. *View Eng'g*, 208 F.3d at 984-85.

42. *S. Bravo Sys.*, 96 F.3d at 1375.

43. *Refac Int'l*, 141 F.R.D. at 286-87.

44. *Dome Patent, L.P. v. Permeable Techs., Inc.*, 190 F.R.D. 88, 92 (W.D.N.Y. 1999); *see also* *Cambridge Prods., Ltd. v. Penn Nutrients, Inc.*, 962 F.2d 1048, 1050 (Fed. Cir. 1992) (plaintiff conducted pre-lawsuit chemical analyses and reviewed documentary evidence).

45. *Hoffmann-La Roche Inc. v. Invamed Inc.*, 213 F.3d 1359, 1365-66 (Fed. Cir. 2000). A district court once held that sanctions were not warranted for a plaintiff's failure to locate a prior art patent, but based its ruling on the defendant's failure to make any "showing that this prior art patent should have been discovered after reasonable inquiry." *Conroy v. Reebok Int'l*, 27 U.S.P.Q.2d 1794, 1798 (D. Mass. 1993), *vacated on other grounds*, 14 F.3d 1570 (Fed. Cir. 1994).

should result in greater latitude to file meritless claims.⁴⁶ Thus, while patent law is a separate body of law, courts addressing the trade secret bad faith provisions might not only make an analogy to the pre-lawsuit investigation requirement, but might also look for guidance to the rules enunciated in the patent cases. For example, a court applying the UTSA provisions might determine that it was not enough for the plaintiff to rely on the personal opinions of its engineers that it possessed trade secrets.⁴⁷

B. Better Decisions Could Have Been Reached Through an Investigation Requirement

¶ 37 As described above, courts around the country have largely denied requests to award attorney's fees under the UTSA bad faith provisions even when it appears clear from the reported facts that the plaintiff likely never had a legitimate basis for raising a trade secret claim. In each such case, the requirement of a pre-lawsuit secrecy investigation would have provided a device by which the reviewing court could explore the plaintiff's basis for bringing the lawsuit. Understanding that a plaintiff might research the public domain before bringing suit would have helped the courts focus, in each case, on the fact that the plaintiff should have known that its claims had no merit.

¶ 38 Cases where a pre-lawsuit secrecy investigation requirement would have made the plaintiff's bad faith apparent are numerous. In *Gordon Employment, Inc. v. Jewell*, for example, a Minnesota court refused to award fees even though the plaintiff admitted to not maintaining the secrecy of the information at issue. The court held that "[a]lthough [the plaintiff] admitted not making efforts to maintain the secrecy of the files, bringing suit under those conditions is not equivalent to bad faith or oppressive motives under the law."⁴⁸ But if a pre-lawsuit secrecy investigation were required, the *Gordon Employment* court would have had a yardstick by which to measure the plaintiff's bad faith, because the plaintiff should have recognized before the lawsuit that its claim had no merit.

¶ 39 Requiring a pre-lawsuit inquiry would also have been useful for a Colorado court that denied fees to a defendant even though the court found "no credible evidence" that secrets existed – the plaintiff failed to enter into a confidentiality agreement with the defendant, an independent contractor, and "all the information was easily accessible."⁴⁹ Nonetheless, the court held that fees were not warranted, in part because the plaintiff claimed secrets in a customer list and "under the proper circumstances, customer lists can

46. See generally David D. Friedman, William M. Landes, & Richard A. Posner, *Some Economics of Trade Secret Law*, 5 J. ECON. PERSP. 61, 62-65 (1991) (discussing economic reasons why a business might elect to treat information as a trade secret or to patent it).

47. For the same reasons, attorneys for a potential trade secret plaintiff might profit from reviewing advice for patent plaintiffs on conducting pre-lawsuit investigations. E.g., Jeffrey I.D. Lewis & Art C. Cody, *Unscrambling the Egg: Pre-Suit Infringement Investigations of Process and Method Patents*, 84 J. PAT. & TRADEMARK OFF. SOC'Y 5 (2002); John M. Skenyon, *Practicing Law Institute – Patent Litigation* § 2:1.1 (2001); L. Craig Metcalf, *Satisfying Rule 11 Prior to Initiating Patent Infringement Claims*, 7 FED. CIR. B.J. 321 (1997).

48. *Gordon Employment, Inc. v. Jewell*, 356 N.W.2d 738, 742 (Minn. Ct. App. 1984) (pre-UTSA case decided under general state bad faith statute).

49. *Colorado Supply Co., Inc. v. Stewart*, 797 P.2d 1303, 1307 (Colo. Ct. App. 1990).

qualify as trade secrets.”⁵⁰ If the plaintiff had been subject to a requirement to investigate potential secrecy before filing suit, the court would have been in a better position to hold that merely claiming secrets in a particular category is not sufficient evidence of good faith.

¶40 To take another example, a federal court applying South Carolina law once declined to award fees where a plaintiff dragged a defendant through seven months of litigation before admitting that its trade secret claims had no supporting evidence. The claims survived summary judgment, for reasons not explained in the published decision. Though the facts in *Vanwyk Textile Systems v. Zimmer Machinery America* are unclear, a pre-lawsuit inquiry requirement might have helped the court see through the plaintiff’s meritless claims at an earlier point.⁵¹

¶41 The same is true for the other cases described above where courts’ decisions not to find bad faith and award fees were based on questionable grounds – that the plaintiff’s business was technical,⁵² or that the defendant joined a competitor.⁵³ It is not unreasonable to expect that if courts began requiring a pre-lawsuit secrecy investigation, nationwide jurisprudence might begin reflecting results far different from those reported in courts around the country in the first two decades since the UTSA bad faith provisions were enacted.

V. THE POSITIVE EFFECTS OF A PRE-LAWSUIT SECRECY INVESTIGATION ON OTHER ASPECTS OF TRADE SECRETS LITIGATION

¶42 Requiring trade secret plaintiffs to conduct a pre-lawsuit investigation would have salutary effects on at least three other problematic areas of trade secret law. First, this requirement would make it difficult for plaintiffs to file the sort of expert witness reports that reflect what one court has called the “ignorance is bliss strategy” – that is, to proclaim information secret without any investigation into the public domain.⁵⁴ If plaintiffs were required to investigate their claims beforehand, expert reports would reflect that work effort. Experts could no longer collect high fees for submitting opinions that would never pass muster under scholarly peer review.⁵⁵

¶43 Second, this requirement might reduce the frequent battles over the plaintiff’s identification of its alleged secrets. As noted above, defendants sometimes have to file a motion to force a plaintiff to identify its alleged secrets with sufficient detail so that the

50. *Id.*

51. *Vanwyk Textile Sys. v. Zimmer Machinery Am.*, 994 F. Supp. 350, 387 (W.D.N.C. 1997).

52. *See Research & Trading Corp. v. Pfuhl*, 1992 WL 345465, at *15-*16 (Del. Ch. 1992) (unpublished decision).

53. *See Optic Graphics, Inc. v. Agee*, 591 A.2d 578, 589 (Md. Ct. Spec. App. 1991).

54. *See Atmel Corp. v. Information Storage Devices, Inc.*, 189 F.R.D. 410, 416 (N.D. Cal. 1999).

55. The submission of an expert report that declares information secret but that is not based on actual research into the public domain should itself be considered evidence of bad faith. A good faith plaintiff, by contrast, might consult an expert to assist with the pre-lawsuit secrecy investigation, and that expert might later file a written report during the lawsuit.

defendant (and the court) can test the claim against information in the public domain.⁵⁶ Plaintiffs sometimes resist making such a detailed identification. Some cases make it to the summary judgment stage with a plaintiff who refuses to provide anything more than a generalized list of alleged secrets.⁵⁷ The problem arises because plaintiffs often do little more to identify their alleged secrets than name vague categories of information such as “the plaintiff’s customer list,” or “an ASIC and associated wiring,” or “system architectures and software code.” Such descriptions, which list only general concepts and not the alleged secrets themselves, make it difficult for defendants to show that the alleged secrets are in the public domain, because the defendant does not know exactly what is claimed.

¶44 Keeping claimed secrets vague helps plaintiffs to press bad faith claims, because a plaintiff can make overbroad claims to ownership of a wider portion of the defendant’s technology or business information, and because a defendant is obstructed from raising its best possible defense.

¶45 But the inference is almost unavoidable that a plaintiff who has not made a precise identification of its exact alleged secrets has never conducted any investigation into whether or not it owns any secret information that is not in the public commons. This is so because a plaintiff who alleges the theft of broad categories like “software architectures” or “customer lists” has likely never sat down and separated distinct items of information from one another, much less researched the secrecy of each particular item (or combination of items). Surprisingly, even the courts that have forced plaintiffs to provide more precise identifications of alleged secrets seem not to have recognized that the plaintiffs in each case were claiming to own secret information without having researched that question beforehand.⁵⁸

56. One state, California, requires such identification by statute. See CAL. CIV. PROC. CODE § 2019(d); *Computer Econs., Inc. v. Gartner Group, Inc.*, 50 F. Supp. 2d 980, 992 (S.D. Cal. 1999) (applying the California statute in federal court under the *Erie* doctrine); see also *Del Monte Fresh Produce Co. v. Dole Food Co., Inc.*, 148 F. Supp. 2d 1322, 1323-25 (S.D. Fla. 2001) (applying § 2019(d) under California law). In other jurisdictions, the issue is governed by common law. See *Porous Media Corp. v. Midland Brake Inc.*, 187 F.R.D. 598, 600 (D. Minn. 1999) (finding general descriptions of ideas related to brake canister product insufficient identification to permit discovery to go forward); *Multimedia Cablevision, Inc. v. California Security Co-op, Inc.*, 1996 WL 447815, at *1-2 (D. Kan. 1996) (granting motion to compel more specific response; holding reference to documents to be insufficient identification); *Xerox Corp. v. IBM Corp.*, 64 F.R.D. 367, 370-71 (S.D.N.Y. 1974) (finding that plaintiff failed to sufficiently identify claimed secrets to permit discovery where it merely pointed to documents it claimed contained the alleged secrets); *Cambridge Internet Solutions, Inc. v. Avicon Group*, 1999 WL 959673, at *2 (Mass. Super. Ct. 1999) (finding reference to “certain source codes, work processes, and customer deliverables” insufficient identification).

57. See *Imax Corp. v. Cinema Techs., Inc.*, 152 F.3d 1161, 1164-67 (9th Cir. 1998) (affirming summary judgment where plaintiff failed to identify alleged secret dimensions and tolerances in projector system); *Universal Analytics, Inc. v. MacNeal-Schwendler Corp.*, 707 F. Supp. 1170, 1177 (C.D. Cal. 1989) (summary judgment for failure to identify alleged trade secrets), *aff’d*, 914 F.2d 1256 (9th Cir. 1990).

58. Cases holding that plaintiffs have failed to properly identify alleged secrets are too numerous to list here, but examples include those listed in *supra* note 56. The author is aware of no case addressing the identification of alleged secrets that makes any reference to a failure to conduct a pre-lawsuit secrecy investigation.

¶46 If plaintiffs were required to conduct pre-lawsuit secrecy investigations, it is quite possible that the battles over identification of alleged trade secrets would be reduced. A plaintiff cannot research the public domain without first making a list of precise and specific items of information (or combinations of items) that it believes may be secret, and that it believes the defendant has used. Generalized concepts and categories would be impossible to compare against published information, because virtually all general technology and business concepts are widespread in the public domain. If some or all of the items on a plaintiff's pre-lawsuit list indeed appear to be secret after an investigation, those items would form the basis for the plaintiff's identification of its alleged secrets.

¶47 So long as the plaintiff does not conceal the details of such items from the defendant, there would be no need for motion practice to force a plaintiff to provide a meaningful identification. This would have clear benefits for the conservation of judicial resources as well. In turn, a plaintiff who has failed to identify alleged secrets should be found to have filed suit in bad faith, because the logical inference is that the plaintiff never conducted a reasonable pre-lawsuit secrecy investigation.⁵⁹

¶48 There is a third area of frequent conflict in trade secret litigation that might be reduced by requiring a pre-lawsuit secrecy investigation. This problem is as follows: in trade secret lawsuits, plaintiffs sometimes try to prevent the individuals accused of misappropriation from having access to the plaintiff's identification of alleged secrets, usually by designating the information "attorneys' eyes only" under a protective order. Plaintiffs sometimes argue that they do not wish to expose their technology to the defendants. This practice prevents the people best suited to point out public domain sources for the information at issue from assisting the defense of the case, which may well be the plaintiff's goal. A defendant accused of misusing an alleged secret might be able to point to the textbook, class, or other public source from which he or she either first learned the information or otherwise knew that it was public for all to use.

59. Some courts have held that the failure to properly identify alleged secrets is itself evidence supporting a finding of bad faith under the UTSA provisions. *See Computer Econs, Inc. v. Gartner Group, Inc.*, 1999 WL 33178020, at *6-7 (S.D. Cal. 1999) (setting forth standard of bad faith where plaintiff repeatedly refused to properly identify its claims and claimed secrets in material that it had previously disclosed to the public); *Automated Packaging Sys., Inc. v. Sharp Packaging, Inc.*, 1989 WL 223755, at *8, *10 (E.D. Wis. 1989) (awarding fees under Wisconsin statute where plaintiff acted in bad faith by filing allegations and seeking injunction but failed to identify any alleged secrets and then identified only information in the public domain); *see also Compuware Corp. v. Health Care Serv. Corp.*, 2002 WL 485710, at *8 (N.D. Ill. 2002) (awarding fees and FED. R. CIV. P. 37 sanctions for plaintiff's repeated failure to specifically identify its alleged secrets, where plaintiff had pointed to software programs without identifying what was allegedly secret within them). Requiring a pre-lawsuit investigation, however, would make it much less likely that plaintiffs would ever advance that far in litigation without making such an investigation. This probability is illustrated by an Illinois decision where the court denied fees for an earlier stage of the case where the plaintiff had provided no identification of its alleged secrets, but then later granted fees under Rule 11 for a subsequent stage of the case where the plaintiff filed an amended complaint well into the case with the same "generalized" and inadequate allegations. The court spent several paragraphs trying to determine the point at which bad faith began. Were plaintiffs required to conduct a pre-lawsuit secrecy investigation, courts would not face such uncertainty – any plaintiff that appeared in court with uselessly vague allegations could be found in bad faith from the outset. *See qad., Inc. v. ALN Assocs., Inc.*, 1990 WL 93362, at *5 (N.D. Ill. 1990).

¶49 Though courts sometimes reject this argument on other grounds as well, the assertion that a defendant should not be exposed to the plaintiff's information would carry much less force if trade secret plaintiffs were required to conduct a pre-filing investigation that would result in a narrow and specific list of precise items claimed as trade secrets. If plaintiffs were no longer permitted to appear in court with generalized and overbroad trade secret allegations, few would be persuaded that granting the defendant access to the specific items he or she is alleged to have known and to have misappropriated would pose a threat to the plaintiff's wider technology. In other words, a pre-lawsuit secrecy investigation would result in specific claims that extend no more broadly than the information the defendant is accused of already knowing and using, and this would lessen motion practice over limiting the defendant's access to the alleged secrets.

VI. POTENTIAL PROBLEMS WITH REQUIRING A PRE-LAWSUIT SECRECY INVESTIGATION

¶50 Requiring a pre-lawsuit secrecy investigation should not lead to the penalization of every trade secret plaintiff whose alleged secrets are found to be in the public domain. The goal of such a requirement is to deter anticompetitive claims that never should have been brought in the first place, not to punish plaintiffs for raising colorable claims that they own secret information not known to others in the industry. For these reasons, we cannot discuss imposing this new requirement without addressing its possible drawbacks.

¶51 The most important problem with requiring pre-litigation research is that a would-be plaintiff is charged with proving a negative – that the information it believes secret is not out there, somewhere, in the public domain. There is a world of difference, for example, between a vexatious litigant who claims trade secrets in generalized information that competitors or prominent scholars have disclosed on the Internet or well-known journals, and a plaintiff with solid evidence that a former employee has taken a file containing complex software unlikely to be found, in its totality, anywhere in the public domain. Locating information in the public domain can be as simple as using a search engine, or as complex as a lengthy review of scholarly publications. The author has seen examples ranging from allegedly secret customer identities that were easily available on the Internet and trade show attendance records to an allegedly secret formula that had actually been published more than a decade before in a scholarly journal outside the United States not available on the Internet. In cases such as the latter example, it would not make sense to find a plaintiff in bad faith for failing to locate an obscure paper, even though the trade secret claim would be defeated.

¶52 The problem is particularly complex for a company that believes it possesses a combination trade secret (an interrelated set of items, some of which are in the public domain by themselves). As the difficulties courts have faced in dealing with alleged combination trade secrets attest, it is not always easy to draw the line between a combination that should be treated as a trade secret and one that should be deemed

generally known.⁶⁰

¶ 53 It makes sense, then, that the requirement of a pre-lawsuit secrecy investigation be subject to a rule of reason. The sufficiency of each plaintiff's search should be based on the nature of the information it asserts as trade secrets. Where a plaintiff claims trade secrets in customer identities, it should be required to conduct Internet searches, reviews of relevant trade show records where the customers may have had booths, and so forth. Where a plaintiff claims trade secrets in business plans or strategies, it should be required to review the public plans and disclosures of its competitors. And for technical information, a plaintiff should be required to search the Internet, competitors' disclosures, issued patents and public patent applications, and relevant scholarly journals. In each case where a defendant shows that the information was public, the reviewing court can determine whether the plaintiff's investigatory effort was sufficient to avoid attorneys' fees.

¶ 54 A second potential problem with requiring a pre-lawsuit secrecy investigation is that a would-be plaintiff with a solid claim must spend money before filing a lawsuit to stop the wrongdoing. It might seem unfair to require that a party who owns complex technology in an uncrowded market and has direct evidence that a former employer has stolen information must first spend time and resources establishing secrecy before going to court. However, the potential plaintiff might spend the same money at a later point in time – during discovery – in order to prove its claim. In addition, a pre-lawsuit investigation may actually streamline costs for a plaintiff with a good case, because the defendant will be presented with a specific list of secret items and direct evidence that those items were misappropriated. The defense will be less able to fight for a detailed identification of the secrets, and will be unable to run up litigation costs through discovery designed to eradicate the overbroad portion of the plaintiff's allegations.

¶ 55 Faced with a well-prepared plaintiff and evidence of theft, settlement may well occur at an earlier point than it would if an unprepared plaintiff went into court with a vague and overbroad list of alleged secrets that the defendant might fight to winnow down. Similarly, a plaintiff's ability to obtain an injunction seems likely to be strengthened if it presents the court with a detailed and exacting list of secrets backed up by a pre-lawsuit investigation to establish their secrecy.

¶ 56 A third potential problem with the proposed requirement is of less concern. A would-be plaintiff might complain that it should not be required to nail down the secrecy of its information when it does not know what the defendant might be using or not using. There are two answers to this objection. First, a plaintiff should not be planning a trade secret lawsuit in the first place if it has no colorable basis to believe that a potential defendant is using (or preparing to use) particular items of information. Second, and more important, a plaintiff's ability to establish secrecy is entirely independent of what the

60. See Tait Graves and Alexander Macgillivray, *Combination Trade Secrets and the Logic of Intellectual Property*, 20 SANTA CLARA COMPUTER & HIGH TECH. L.J. ___ (forthcoming 2004) (extensive discussion of combination trade secrets and the problem in which all competitors in a given market offer products containing combinations of items that may be unique but differ only slightly from one another).

defendant is doing, and a would-be plaintiff possesses full ability to undertake a secrecy investigation without litigation discovery. This is so because the question whether a company owns information that is not in the public domain is distinct from whether another party is using information learned from that company; the research can be done to answer the first question without any discovery from the suspected wrongdoer.⁶¹

VII. CONCLUSION

¶57 Overbroad trade secret allegations are not merely a threat to individual companies. When trade secret plaintiffs claim information in the public domain as a trade secret, they impose unnecessary burdens on employees' rights to change jobs and take the position of their choosing, and on the ability of competitive businesses in a given industry to make full use of information in the public domain to create the most innovative and efficient products they can. By using the existing UTSA bad faith provisions to require would-be trade secret plaintiffs to conduct a reasonable pre-lawsuit secrecy investigation, courts can ensure that plaintiffs properly bear their burden of proof to establish the existence of an alleged trade secret. They can also deter overbroad trade secret lawsuits and thus promote the public good.

61. Some courts have recognized that plaintiffs possess the knowledge to assess the veracity of at least some elements of their potential claims before filing suit. *See, e.g., VSL Corp. v. Gen. Techs., Inc.*, 46 U.S.P.Q.2d 1356, 1359 (N.D. Cal. 1998) (Where plaintiff had publicly marketed allegedly secret information, "the knowledge that the [information] was not maintained in secrecy was uniquely in the possession of plaintiff VSL."); *Stilwell Dev. Inc. v. Chen*, 11 U.S.P.Q.2d 1328, 1332 (C.D. Cal. 1989) ("Our conclusion is buttressed by the fact that plaintiffs had superior, if not exclusive, knowledge of whether they undertook any effort to maintain the alleged secrets.").