

# Can You Misappropriate A Trade Secret Even If You Don't Know The Secret? Maybe.

**A**s the general counsel of chemical distributor Bystander Incorporated, you've been presented with a trade secret question. Chimera Chemicals has asked Bystander to act as its regional distributor for Unpronounceable-300 ("U-300"), an industrial cleaner likely to be a big seller with Bystander's customers. Chimera will manufacture the product but wants to take advantage of Bystander's superior marketing power and sales network. Your marketing department advises that Chimera's price is low enough to ensure a healthy profit for Bystander, and that your customers have been clamoring for a multi-use cleaner with this kind of power. The "catch" is that Chimera is the midst of a trade secret dispute in which Gargantua Co. alleges that Chimera misappropriated its secret cleaning formula and renamed it U-300. You have received a letter from Gargantua's outside counsel enclosing a copy of the complaint against Chimera and warning that Bystander will be added as a defendant if it "misappropriates" Gargantua's trade secret.

KEVIN J. O'BRIEN

Hold on, you say to yourself. How can Bystander "misappropriate" a trade secret that it doesn't even know? All Bystander does is take the product off a truck, put it on another truck, and sell it to the market. Chimera's counsel calls to assure that they will of course indemnify Bystander for any actions by Gargantua. But, as do all prudent counsel, you must consider a scenario under which Chimera cannot make good on its indemnification promise. Could Bystander face independent liability for misappropriating the alleged trade secret? The courts and commentators applying the Uniform Trade Secrets Act ("UTSA") have answered a resounding "maybe."

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## Misappropriation Under the Uniform Trade Secrets Act

All but four states (Massachusetts, New Jersey, New York and Texas) have adopted some variation of the UTSA, which contains a "definitions" section providing

the following for "misappropriation":

- (1) acquisition of a trade secret of a person by another person who knows or has reason to know that the trade secret was acquired by improper means; or
- (2) disclosure or use of a trade secret of a person without express or implied consent by another person who:
  - (A) used improper means to acquire knowledge of the trade secret; or
  - (B) at the time of the disclosure or use, knew or had reason to know that knowledge of the trade secret was:
    - (I) derived from or through a person who utilized improper means to acquire it;
    - (II) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use;
    - (III) derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or
  - (C) before a material change of position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.

Uniform Trade Secrets Act, §1(2).

Because Bystander doesn't know the formula for U-300, it may argue with some force that it has not "acquired" the trade secret and cannot be liable under Subparagraph 1 of the misappropriation definition. However, Subparagraph 2 of the definition provides that Bystander can be liable for its "use" of the trade secret. The problem is that the statute provides no definition of "use." Can merely distributing a product containing an allegedly stolen trade secret formula constitute "use" of that secret?

## What Does it Mean to "Use" a Trade Secret?

In *Cognis Corp. v. Chemcentral Corp.*, 430 F. Supp. 2d 806 (N.D. Ill. 2006), the court addressed whether a defendant

who did not know the trade secret at issue could have “used” it so as to be liable for misappropriation. The court stated that although neither the UTSA nor Illinois’ version of the UTSA defined “use,” and that no Illinois court had ruled on the issue, the courts that had analyzed “misappropriation” suggested that “‘use’ is a very broad concept...the idea of ‘use’ as embodied in this language indicates that the third party’s actions have to be improper and damage the owner of the secret to some extent.” 430 F.Supp.2d at 812. As further support for a “broad” reading of the term, the court cited the Restatement (Third) of Unfair Competition’s observation that “there are no technical limitations on the nature of the conduct that constitutes ‘use’ of a trade secret...Marketing goods that embody the trade secret in manufacturing or production, relying on the trade secret to assist or accelerate research or development, or soliciting customers through the use of information that is a trade secret...all constitute ‘use.’” *Id.* As a result, the court declined to dismiss the plaintiff’s complaint, stating that it was “possible, under a broad reading of the word ‘use,’ that [plaintiff] may be able to show that [defendant] misappropriated its trade secrets.” *Id.* at 813.

The open-ended language of the *Cognis* decision provides little real guidance as to the circumstances in which a distributor can “use” a trade secret that it doesn’t know. While other courts have not dealt with the issue of the “unknowing user” of the trade secret, at least one other court has embraced a “broad” application of the “use” definition. In *O2 Micro Int’l Ltd. v. Monolithic Power Systems, Inc.*, 399 F.Supp.2d 1064 (N.D. Cal. 2005), the defendant argued that it could not be liable for misappropriation as it never marketed or sold a product incorporating the alleged trade secret. The court rejected that argument, holding that “internal experimentation with trade secret information not resulting in a market product can constitute use.” *Id.* at 1072. However, other courts have taken a narrower view, as reflected in *Gibson-Homans Co. v. Wall-Tite, Inc.*, 1992 WL 512411 (C.D. Cal., Oct. 27, 1992), where the court rejected plaintiff’s contention that the defendant’s mere possession of trade secret formulas constituted a “continuous threat of misappropriation.” Because the court found no evidence that the defendant intended to use or disclose the formula to competitors, it reasoned there had been no “misappropriation,” but warned that “if in the future the threat

of misappropriation becomes real,” plaintiff would have a remedy under California’s version of the UTSA. *Id.* at \*5.

Where does the nebulous case law leave Bystander? The Restatement of Unfair Competition offers the statement that “as a general matter, any exploitation of the trade secret that is likely to result in injury to the trade secret owner or enrichment to the defendant is a ‘use.’” Restatement 3d of Unfair Competition, §40 cmt. c. Thus, if U-300 is a market competitor with Gargantua’s products, a court may find that Bystander’s distribution of the product containing the trade secret is an “exploitation” of that secret resulting in injury to Gargantua. In a similar vein, Gargantua may allege that Bystander is “enriched” if it solicits Gargantua’s customers to buy U-300 at a lower price than Gargantua’s competing product. In the *Cognis* case, the court relied on allegations that defendant (1) had formerly distributed plaintiff’s products; (2) knew that defendant treated its formula as a trade secret; and (3) was “underpricing” the distributed product to solicit defendant’s customers, as support for its finding that plaintiff had adequately pleaded a claim for misappropriation. *Cognis*, 430 F.Supp.2d at 813.

The bottom line is that even if Bystander does not know the trade secret, a court may be more inclined to find that Bystander has “used” that secret if it has somehow assisted Chimera in its alleged wrongdoing. Given the uncertain terrain provided by the statute and case law, your best course as Bystander’s counsel is to position the company’s distribution agreement with Chimera as an independent stand-alone transaction to the fullest extent possible. If Bystander can demonstrate that it had no involvement in the underlying dispute and has no “history” with Gargantua, it may avoid being deemed a “user” of the alleged trade secret.

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*Kevin J. O’Brien is a partner with Butler Rubin Saltarelli & Boyd LLP, a Chicago litigation boutique. He specializes in complex business litigation, including reinsurance disputes and environmental counseling and litigation. The views expressed in this article are personal to the author.*

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