

Client Alert

No Such Thing as Small Potatoes When It Comes To Protecting Your Trade Secrets

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A recent decision from the Eighth Circuit serves as a reminder that trade secret holders must not sleep on their rights when presented with information that would put a reasonable person on notice of potential misappropriation. See *CMI Roadbuilding, Inc. v. Iowa Parts, Inc.*, No. 18-1075, 2019 WL 1474022 (8th Cir. Apr. 4, 2019). The Eighth Circuit affirmed the district court's grant of summary judgment in favor of the defendant, confirming that the plaintiff's claims under the Defend Trade Secrets Act (DTSA) and Iowa Uniform Trade Secrets Act (UTSA) were time barred, and rejecting the plaintiff's tolling argument as a matter of law.

CMI and Iowa Parts competed in the sale of replacement parts for manufacturing asphalt and concrete plants, as well as landfill and dirt compaction equipment. CMI outsourced the sale of its replacement parts to certain vendors, and in doing so, provided these vendors with the necessary technical drawings, plans, and specifications. CMI alleged these engineering documents were its protected trade secrets.

In 2002, Iowa Parts entered the market for replacement parts, staffed with former CMI employees and former employees of various entities (including a company named Terex) that CMI had acquired over the years. To build the replacement parts, Iowa Parts approached various vendors that had received CMI's engineering documents and asked these vendors to manufacture these parts for Iowa Parts, as well. Some of those vendors went so far as providing CMI's engineering documents directly to Iowa Parts. Once in business, Iowa Parts sold competing products in the \$50 to \$250 range for many years; but, more recently, it began making competing products that sold for \$300,000 to \$400,000 – a change of direction that CMI claimed first put it on notice of trade secret misappropriation.

In 2016, CMI brought claims against Iowa Parts under the DTSA and UTSA, which both have three-year statute of limitations. Iowa Parts argued that the claims were time barred because CMI had notice of Iowa Parts' alleged conduct well before 2013. In turn, CMI argued that under the discovery rule, the clock should not begin to run on the statute of limitations until 2016, when Iowa Parts first began selling these more expensive parts. According to CMI, Iowa Parts could have reverse engineered the smaller, cheaper parts – but the manufacture of the more expensive parts required Iowa Parts to use CMI's trade secrets. CMI claimed that this discovery triggered the beginning of the limitations period.

The Eighth Circuit rejected CMI's argument as contrary to the discovery rule, which is written into both the DTSA and UTSA. 18 U.S.C. § 1836(d); Iowa Code § 550.8. The discovery rule tolls the statute of limitations until a party has actual or inquiry notice of an injury, placing the onus on a plaintiff who has knowledge of certain facts to make an inquiry into those facts: "The ultimate focus is whether the plaintiff was aware a problem existed. Once a plaintiff is on inquiry notice, he is charged with knowledge that a reasonably diligent investigation would have

disclosed, and has a duty to do such an investigation, regardless of the plaintiff's exact knowledge." *CMI Roadbuilding*, 2019 WL 1474022, at *3 (citations omitted).

Here, the Court held that certain facts put CMI on inquiry notice, thus triggering the statute of limitations as early as 2002. First, in 2002, an Iowa Parts employee received a letter from Terex (his former employer and an entity that CMI acquired) reminding him of his duty of loyalty to the company, warning him that it would be a crime to disclose its trade secrets, and stating that it knew he was trying to poach customers. Second, CMI's employees testified that Iowa Parts was able to compete directly with CMI almost immediately after it was formed, and that Iowa Parts was able to provide customers with price quotes for replacement parts faster than CMI could provide this information about its own products. Finally, from 2002 until 2013, the parties advertised in the same magazines and attended the same trade shows, and as early as 2011, Iowa Parts' website touted that its employees gained knowledge in this business while working for CMI or its predecessors.

After acknowledging that tolling can be an issue left to the fact finder, the Eighth Circuit nonetheless affirmed summary judgment in favor of Iowa Parts. The facts set forth above put CMI on notice that there was a problem, and thus placed the burden on CMI to make an inquiry into that problem. In other words, no reasonable jury could look at this record and conclude that a reasonably prudent person would have waited so long to discover Iowa Parts' misappropriation.

By failing to follow through when it received information that could have led to the discovery of trade secret misappropriation, CMI was thus left with no recourse when Iowa Parts entered the big leagues of replacement parts and more money was at stake – even losing the chance to get in front of a jury that may have been more sympathetic to CMI's story.

For more information, please contact the professional(s) listed below, or your regular Crowell & Moring contact.

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