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STATE OF MINNESOTA  
COUNTY OF HENNEPIN

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DISTRICT COURT  
FOURTH JUDICIAL DISTRICT

BY \_\_\_\_\_ DEPUTY

Telluride Asset Management, LLC,

HENN CO. DISTRICT  
COURT ADMINISTRATOR

Plaintiff,

**ORDER DENYING PLAINTIFF'S  
MOTION FOR TEMPORARY  
RESTRAINING ORDER  
AND INJUNCTION**

v.

Eric Falkenstein,

Court File No. 27-CV-07-4832

Defendant.

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The above-entitled matter came before the Honorable Heidi S. Schellhas, Judge of District Court, at the Hennepin County Government Center, Courts Tower, in Minneapolis, Minnesota, for a hearing on March 23, 2007, on the plaintiff's Motion for a Temporary Restraining Order and Injunction.

Russell J. Rigby and Rachel C. Hughey of Carlson, Caspers, Vandenburg & Lindquist appeared on behalf of the plaintiff.

Christopher T. Shaheen and Thomas M. Jancik of Dorsey & Whitney, L.L.P., appeared on behalf of the defendant.

Based upon the argument of counsel, together with all of the files, records, and proceedings herein, the Court now makes the following:

**PROCEDURAL HISTORY**

1. On March 21, 2007, the plaintiff, Telluride Asset Management, LLC ("Telluride"), commenced this action against the defendant, Eric Falkenstein ("Falkenstein"), alleging breach of contract and misappropriation of Telluride's trade secrets and seeking a temporary restraining order, a temporary injunction, a permanent injunction, and damages.

2. Also, on March 21, 2007, Telluride filed a Certificate of Representation and Parties, Plaintiff's Emergency Motion for an Order Directing Expedited Discovery, Affidavit of Russell J. Rigby in Support of Plaintiff's Emergency Motion for an Order Directing Expedited Discovery with supporting exhibits, proposed Order for Expedited Discovery, Plaintiff's Emergency Notice of Motion and Motion for an Order Requiring Preservation of Documents and Things, proposed Order for Preservation of Document, a Memorandum of Law in Support of Plaintiff's Ex Parte Motion for Temporary Restraining Order and Temporary Injunction ("Plaintiff's Memorandum"), Plaintiff's Motion for Temporary Restraining Order and Temporary Injunction, and proposed Temporary Restraining Order.
3. On March 22, 2007, Falkenstein filed Defendant's Consolidated Memorandum in Response to Plaintiff's Motion for a Temporary Restraining Order ("Defendant's Memorandum").
4. On March 23, 2007, the Court heard Telluride's motions and ruled from the Bench, denying Telluride's motion for a temporary restraining order and granting its motion for an order requiring preservation of documents.
5. On March 27, 2007, Falkenstein filed his affidavit.
6. On April 4, 2007, pursuant to the parties' stipulation, the Court filed a Protective Order.
7. At the hearing on March 23, 2007, Telluride sought temporary, preliminary injunctive relief barring Falkenstein from using or disclosing Telluride's confidential information as required by his Confidentiality Contract, from using or disclosing Telluride's trade secrets, and from soliciting business from Telluride's known clients, customers, or prospective or former clients as required by his Confidentiality Contract. (*See Verified Complaint*, p. 10.)
8. In its Complaint, the plaintiff seeks a Judgment and Order: that Falkenstein has violated the Confidentiality Agreement by failing to return Telluride's Confidential Information and by soliciting business from potential customers of Telluride; and that Falkenstein has violated the Minnesota Uniform Trade Secrets Act by using or offering to use Telluride's trade secrets for the benefit of those other than Telluride. The plaintiff seeks a Judgment and Order requiring Falkenstein to pay all appropriate damages for his breach of contract and misappropriation of Telluride's trade secrets, and to pay the costs of this action, including all disbursements and attorneys' fees. (*See Verified Complaint*, p. 11.)

## FACTUAL BACKGROUND<sup>1</sup>

1. Falkenstein's portfolio management career began after he received a Ph.D., in Economics from Northwestern University. (*See* Falkenstein Aff., ¶ 2; Falkenstein Aff., Ex. A.) Falkenstein's Ph.D. dissertation provided a focal point for his management strategies and, in large part, the premise that high volatility assets have lower returns. (Falkenstein Aff., ¶ 24.)
2. On January 22, 2004, Telluride CEO Peter Hajas ("Hajas") hired Falkenstein as a Portfolio Manager to manage funds, which included implementing an existing trading strategy and developing new strategies. (*See* Falkenstein Aff., ¶ 9.)<sup>2</sup>
3. On January 22, 2004, Telluride and Falkenstein executed an Employee Confidentiality and Non-Solicitation Agreement ("Confidentiality Agreement"). (*See* Verified Complaint, Ex. A.)
4. The Confidentiality Agreement provides that: "Employee agrees that all inventions, discoveries, computer software programs, trade concepts, designs, patents, ideas and copyrightable and/or patentable materials made, conceived or developed by Employee during the term of this Agreement shall be owned in full by the Firm." (*See* Verified Complaint, Ex. A § 2.)
5. The Confidentiality Agreement further provides that Telluride's ownership of an invention would not apply to "an invention for which no equipment, supplies, facility, or trade secret information of the Firm was used and which was developed entirely on the Employee's own time, and (1) which does not relate (a) directly to the business of the Firm or (b) to the Firm's actual or demonstrably anticipated research or development, or (2) which does not result from any work performed by the employee for the firm." (*See* Verified Complaint, Ex. A § 2.)
6. The Confidentiality Agreement further requires that Falkenstein, during the course of his employment with Telluride, "shall not use or disclose the Firm's Confidential Information to any person or entity except as necessary for the proper performance of duties and responsibilities prescribed by the Firm..." (Verified Complaint, Ex. A § 4), and that after the termination of his employment for whatever reason, Falkenstein "shall not use or disclose Confidential Information to any person or entity other than the Firm for any reason" unless compelled to by court order or subpoena. (*Id.*)

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<sup>1</sup> The facts set forth in the "Factual Background" are not intended to constitute findings of fact within the meaning of Minn. Stat. § 546.27, subd. 1.

<sup>2</sup> Falkenstein claims that the only factor he used at Telluride that was not in the public domain, until recently, was volatility. (*See* Falkenstein Aff., ¶ 10.) Falkenstein asserts that volatility was not in the public domain at the time because Falkenstein discovered it while working on his 1994 Ph.D. dissertation and chose not to publish it so that he could use it to build the Falken Fund based on his findings. (*Id.*) The volatility anomaly Falkenstein discovered was published in the 2006 *Journal of Finance*, thus, Falkenstein alleges that each of the factors that he employed in his trading models at Telluride are known to thousands of academics, students, and various outsiders. (*Id.*)

7. When Falkenstein began his employment with Telluride, he brought with him a systematic fundamental domestic single stock equity trading model that he had previously developed known as the "Original Model". (*See* Plaintiff's Memorandum, p. 5.)
8. In collaboration with Telluride and during the course of his employment with Telluride, Falkenstein worked on, monitored, analyzed, diagnosed, modified, revised, added to, and improved the Original Model ("Telluride Modified Model"). (*See* Plaintiff's Memorandum, p. 5.) He also researched new trading models, strategies and concepts for Telluride, and developed and implemented at least three new trading models, concepts and strategies for Telluride ("New Telluride Models"). (*See* Plaintiff's Memorandum, p. 6.)
9. During his employment with Telluride, Falkenstein was given access to its Confidential Information, resources and employees in developing trading models, strategies and concepts for it, including Telluride's trade secrets and other confidential and proprietary information. (*See* Plaintiff's Memorandum, p. 6.)
10. Falkenstein claims that as he developed trading strategies at Telluride, he continued to employ well-known, general concepts such as profitability, accruals, and volatility, as part of his strategies. (*See* Falkenstein Aff., ¶ 13.)
11. Falkenstein and Telluride agreed that if and when Falkenstein left his employment with Telluride, both parties would be free to continue using the Original Model. However, as required by the Confidentiality Agreement, any and all modifications, revisions, additions, refinements, or improvements made to the Original Model (including all its factors), while Falkenstein was employed by Telluride, would belong to Telluride. (*See* Plaintiff's Memorandum, p. 5.)
12. The Confidentiality Agreement requires that Falkenstein "immediately and unconditionally surrender to the Firm all Confidential Information and all property belonging to the Firm" upon termination of his employment. (*See* Verified Complaint, Ex. A § 5.)
13. Falkenstein resigned from his position at Telluride on September 1, 2006. (*See* Falkenstein Aff. ¶ 4.) In his resignation letter, Falkenstein stated that he had reviewed his agreements with Telluride and understood his continuing obligations. (*See* Verified Complaint, Ex. B.)
14. Since September 16, 2006, Falkenstein has been researching and developing the details of a new trading tool. (*See* Defendant's Memorandum, p. 5-6.) Falkenstein claims that he is using general concepts that are well known in the field of academic finance, as well as the precise methodologies and other highly specific data and that when it comes to the detailed implementation, his new approach bears no resemblance to the models that he developed on behalf of Telluride. (*Id.*)

15. At the time of the hearing on March 23, 2007, Falkenstein had not been employed since he resigned his position at Telluride. (*See* Falkenstein Aff., ¶ 17.) He also does not have a current offer of employment. (*Id.*) In February 2007, Falkenstein spoke with Irv Kessler (“Kessler”) of Provident Advisors regarding starting a hedge fund. (*Id.* at ¶ 18.) Because Kessler is an acquaintance and former colleague of Hajas, Hajas soon learned that Falkenstein was considering whether to manage another hedge fund. (*Id.*)
16. After speaking with Kessler, Hajas contacted Falkenstein and expressed concern that Falkenstein would be using Telluride confidential information in his new venture. (*Id.* at ¶ 19.)
17. On February 22, 2007, Telluride asked Falkenstein to “identify all similarities between [his] proposed strategy and to what [he] did at Telluride”; to “identify the similarities with detailed particularity including by providing [Telluride] with copies of any computer software programs, Excel spreadsheets and back testing information”; to “identify specific algorithms that you used on ‘my sub-strategies at Telluride’ and that you intend to use in your proposed strategy”; and to confirm that “you have surrendered all Confidential Information and all property belonging to Telluride as required by paragraph 5 of the agreement.” (*See* Verified Complaint, Ex. D.)
18. On March 9, 2007, Falkenstein responded to Telluride’s repeated inquiries and admitted that his proposed strategy used volatility, accruals, profitability, and capital issuance as factors for estimating the return of equities. (*See* Verified Complaint, Ex. F.) Although these are the same four factors that are used in the Telluride Modified Model and the New Telluride Models, Falkenstein argues that he used public domain information to develop the same set of factors that he developed for and used at Telluride. (*See* Verified Complaint, ¶ 33.)
19. On March 15, 2007, Falkenstein met with Hajas in an effort to convince Telluride that his proposed strategy did not use or disclose Telluride’s trade secrets. However, the plaintiff argues that Falkenstein only selected and redacted information concerning his proposed strategy. (*Id.* at ¶ 34.) Telluride was not appeased.

## CONCLUSIONS OF LAW

1. As provided in Minn. R. Civ. P. 65.01:

A temporary restraining order may be granted without written or oral notice to the adverse party or that party's attorney only if (a) it clearly appears from specific facts shown by affidavit or by the verified complaint that immediate and irreparable injury, loss, or damage will result to the applicant before the adverse party or that party's attorney can be heard in opposition, and (b) the applicant's attorney states to the court in writing the efforts, if any, which have been made to give notice should not be required.

2. The analysis for granting a temporary restraining order is the same as that for a temporary injunction. *See Bio-Line, Inc. v. Burman*, 404 N.W.2d 318, 321 (Minn. Ct. App. 1987) (citing *M.G.M. Liquor Warehouse International, Inc. v. Forsland*, 371 N.W.2d 75, 77 (Minn. Ct. App. 1985)).
3. A trial court must consider five factors in determining whether to grant a temporary restraining order: (a) the nature and background of the relationship between the parties preexisting the dispute giving rise to the request for relief; (b) the harm to be suffered by the plaintiff if the temporary injunction is denied as compared to that inflicted on the defendant if the injunction issues pending trial; (c) the likelihood that one party or the other will prevail on the merits when the fact situation is viewed in light of established precedents fixing the limits of equitable relief; (d) the aspects of the fact situation, if any, which permit or require consideration of public policy expressed in the statutes, State and Federal; and (e) the administrative burdens involved in judicial supervision and enforcement of a temporary decree. *See Dahlberg Bros., Inc. v. Ford Motor Co.*, 137 N.W.2d 314, 321-322 (Minn. 1965) (citations omitted); *Haley v. Forcelle*, 669 N.W.2d 48, 55-56 (Minn. Ct. App. 2003); *Medtronic, Inc. v. Advanced Bionic Corp.*, 630 N.W.2d 438, 451 (Minn. Ct. App. 2001).
4. The purpose of temporary injunctive relief is to preserve the status quo until adjudication of the case on the merits. *See Pickerign v. Pasco Marketing, Inc.*, 303 Minn. 442, 446, 228 N.W.2d 562, 565 (1975); *Bio-Line*, 404 N.W.2d at 320.

## RELATIONSHIP TO THE PARTIES

5. According to *Dahlberg*, Telluride first bears the burden of demonstrating that a restraining order should be issued based on the relationship of the parties before the dispute arose and as of March 23, 2007. The relationship between the parties is a former employment relationship. Falkenstein was unemployed. Even if Falkenstein were employed in competition with Telluride, this factor would weigh in Falkenstein's favor because competition is favored under the law and Minnesota courts "look upon restrictive contracts with disfavor, carefully

scrutinizing them.” *Nat’l Recruiters v. Cashman*, 323 N.W.2d 736, 740 (Minn. 1982); *United Wild Rice, Inc. v. Nelson*, 313 N.W.2d 628, 633 (Minn. 1982) (“The law’s preference for competition is illustrated by the establishment of a special privilege for competitors.”).

Consideration of the first factor under *Dahlberg* weighs against the issuance of injunctive relief.

### BALANCE OF HARMS

6. “A trial court may grant a temporary injunction if the party seeking it establishes that there is no adequate remedy at law and the denial of the injunction will result in irreparable injury.” *See Sanborn Mfg. Co. v. Currie*, 500 N.W.2d 161, 163 (Minn. 1993). Only “when it is clear that the rights of a party will be irreparably injured before a trial on the merits is held” should such an order be entered. (*See Miller*, 317 N.W.2d at 712; *Sunny Fresh Foods, Inc. v. Microfresh Foods Corp.*, 424 N.W.2d 309, 310 (Minn. App. 1988) (order should issue only “in clear cases, reasonably far from doubt”). The burden of proof remains on the complainant to establish the material allegations entitling it to relief. *See Sunny Fresh Foods*, 424 N.W.2d at 310. The movant’s failure to sustain its burden of proving irreparable harm ends the inquiry, and the denial of injunctive relief is warranted. *See Gelco Corp. v. Coniston Partners*, 811 F.2d 414, 420 (8<sup>th</sup> Cir. 1987).
7. As Falkenstein is currently unemployed, Telluride’s argument of irreparable harm is necessarily based on the risk of a disclosure and use of the undefined “confidential and trade secret information that Telluride entrusted to Falkenstein during his employment with Telluride” at some point in the future. But even where the existence of trade secrets is shown, “an injunction may issue only where there is a misappropriation or threatened misappropriation of trade secrets.” *IBM Corp. v. Seagate Technology, Inc.*, 941 F. Supp. 98, 101 (D. Minn. 1992). “More than a risk of irreparable harm must be demonstrated ... [i]njunctive relief will not be issued merely to allay the fears and apprehensions or to soothe the anxieties of the parties.” *Id.* (citation omitted).
8. A claim of trade secret misappropriation should not act as an *ex post covenant* not to compete. *See Hoskins Mfg. Co. v. PMC Corp.*, 47 F.Supp.2d 852, 856 (E.D. Mich. 1999) (allegations that defendant worked for plaintiff, knew plaintiff’s business, left plaintiff’s employ, and entered the same field does not state a claim of threatened misappropriation). Moreover, Telluride cannot prevent Falkenstein from taking his *general knowledge and experience*, gained before and during his employment, to a new employer. *See Roth v. Gamble-Skogmo, Inc.*, 532 F.Supp. 1029, 1032 (D. Minn. 1982) (emphasis added); *see also* Verified Complaint, Ex. A § 2 (“Nothing in this Section shall be construed to restrict Employee’s use of general know-how and experience in future employment so long as Confidential Information is not used or disclosed.”).

9. Telluride's conclusory assertions of potential future harm are mere speculation and are insufficient to support a restraining order. An injunction is not appropriate to prevent an imagined injury which there is no reasonable grounds to fear. *See, e.g., AMF Pinspotters, Inc. v. Harkins Bowling, Inc.*, 110 N.W.2d 348, 351 (Minn. 1961); *Morse v. City of Waterville*, 458 N.W.2d 728, 729 (Minn. Ct. App. 1990) (noting that failure to show irreparable harm is, by itself, a sufficient ground on which to deny a temporary injunction).
10. Consideration of this factor weighs against the issuance of injunctive relief.

### **LIKELIHOOD OF SUCCESS ON THE MERITS**

11. Telluride bears the burden of demonstrating that a restraining order should be issued based on the fact it is likely to succeed on the merits, which it has not done in this case. The movant's success on the merits must be "at least...sufficiently likely to support the kind of relief it requests." *See Sanborn Mfg. v. Campbell Hausfeld/Scott Fetzer Co.*, 997 F.2d 484, 488 (8th Cir. 1993).
12. Telluride bears the burden of establishing precisely what information was improperly taken by Falkenstein. If it fails to describe specifically any trade secrets or confidential information, it is not entitled to relief. *See Electro Craft Corp. v. Controlled Motion, Inc.*, 332 N.W.2d 891, 899 (Minn. 1982); *Surgidev Corp. v. Eye Tech., Inc.*, 648 F.Supp. 661, 898 (D. Minn. 1986); *Litton Systems, Inc. v. Sun Strand Corp.*, 750 F.2d 952, 957-58 (Fed. Cir. 1984). Producing a list of categories of information, without identifying specific secrets, does not satisfy its burden. An injunction is inappropriate if the plaintiff fails "to identify specific trade secrets and instead produces long lists of general areas of information which contain unidentified trade secrets." *IBM Corp.*, 941 F.Supp. at 100 (*quoting AMP, Inc. v. Fleischhacker*, 823 F.2d 1199, 1203) (7<sup>th</sup> Cir. 1987).
13. The threshold requirement for any injunction relating to confidential information or trade secrets is that such confidential information or trade secrets be defined. *See IBM Corp.*, 941 F.Supp. 98.
14. Here, Telluride has not specifically described what information it claims to be confidential. Telluride lists broad categories of information such as "resources ... in developing trading models," and "strategies and concepts for Telluride." (*See* Plaintiff's Memorandum, ¶ 6.) Telluride also cites to the generic knowledge of Falkenstein's employment agreement and then asserts that anything "that relates directly to the business of [Telluride]" constitutes confidential information. (*Id.* at ¶¶ 12-13.) Finally, Telluride asserts that the "ideas, strategies, methodologies, and algorithms" that were incorporated in the "Telluride Modified Model" and the "New Telluride Models" are the property of Telluride. (*Id.* at ¶ 15.) Without any supporting detail, these broad descriptions of categories of information are not sufficient to meet Telluride's burden.

