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May 8, 2007

Christopher T. Shaheen
Dorsey & Whitney, LLP
Suite 1500
50 South Sixth Street
Minneapolis, MN 55402-1498

VIA FIRST CLASS MAIL AND ELECTRONIC MAIL

RE: Telluride Asset Management, LLC v. Eric Falkenstein
Court File No.: 27-cv-07-4832

Dear Mr. Shaheen:

I am writing to follow-up on my call yesterday. Falkenstein's objections and responses to Telluride's document requests are grievously deficient. Under Minnesota Rule of Civil Procedure 26.07, a response to a discovery request must be consistent with the Minnesota Rules of Civil Procedure and warranted by existing law or a good faith argument for the extension, modification, or reversal of existing law. It does not appear that Falkenstein's discovery responses meet this requirement. It is my understanding, based on a review of Falkenstein's responses, that Falkenstein will be producing nothing in response to seventeen of the nineteen document requests and will only be producing a small portion of his relevant documents in response to the remaining two. Falkenstein has merely imposed boilerplate objections and fails to meet his obligations under the Minnesota Rules of Civil Procedure. If Falkenstein honestly believes his refusal to provide this discovery is proper, he should seek a protective order. He should not force Telluride to file a motion to compel.

First, Falkenstein's repeated objection that "Plaintiff has yet to define specifically its alleged misappropriated trade secrets and confidential information" is frivolous. Falkenstein has provided no legal support to justify this position. And as we have already discussed, the court considered and rejected your arguments when it entered the preservation order. Telluride has adequately defined the term. Our trade secrets include the models that Mr. Falkenstein developed and improved for Telluride and include the use of accruals, profitability, volatility, and capital issuance as factors and mean-variance optimization to select single stock equities and

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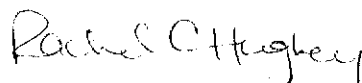
any models derived from those models or factors. There is no need for a more specific definition because Mr. Falkenstein knows exactly what he developed for Telluride and what the disputed factors are. Further, *Plaintiff's document requests are not just directed to trade secrets*. Per the employment agreement, Telluride owns all inventions, discoveries, computer software programs, trade concepts, designs, patents, ideas and copyrightable and/or patentable materials made, conceived or developed by Falkenstein during the term of the employment agreement that relate to Telluride's business, and to Telluride's actual or demonstrably anticipated research or development, not just its trade secrets. For these reasons, this objection is without merit and Falkenstein cannot withhold documents based on it.

Second, Falkenstein's repeated objection that any request "seeks information beyond the . . . time period at issue in this litigation" is likewise without merit. First, Falkenstein has not explained what exactly he considers to be the relevant time period. If Falkenstein intends to withhold documents based on this objection, he must provide the specific dates that are objectionable and justify his refusal to produce the remaining documents. Further, discovery with respect to events that occurred after his employment with Telluride is clearly relevant not only to Telluride's claims that he has breached his confidentiality agreement and misappropriated its trade secrets and confidential information, but also to Falkenstein's counterclaims. For this reason, this objection is without merit and Falkenstein cannot withhold documents based on it.

Finally, Falkenstein's objection that any request "seeks documentation and things already in Plaintiffs possession" likewise fails to meet Falkenstein's obligations. Part of Telluride's breach of contract claim is based on the fact that Falkenstein failed to return documents as he was obligated to do under his employment agreement. Further, Telluride's requests extend to documents that would not be in its possession—such as documents that were created and maintained on Falkenstein's home computer. For this reason, this blanket objection is without merit and cannot be used to withhold these highly relevant documents.

Please contact me by the close of business on May 9, 2007, to discuss these issues pursuant to Minnesota Rule of Civil Procedure 37.01.

Sincerely,



Rachel C. Hughey

Cc: Stuart R. Hemphill
Thomas Janick