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### TRADE SECRETS

The authors discuss the evolving standards for identifying and disclosing trade secrets.

## 'Discovering' Trade Secrets: The Devil Is in the Details



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### Trade Secrets, Trade Secret Litigation Are Big Business

**T**rade secrets are becoming a more fundamental part of intellectual property portfolios as intangible or knowledge-based assets are increasingly used to build and maintain a marketplace advantage. The information economy boom has increased both the importance of trade secret protection and the necessity to develop and implement internal practices to protect confidential information. These practices must be successful in a global marketplace amid rapid advances in technology and among an itinerant work force.

While changes to the business environment have made trade secrets more significant, these same changes have also made them more likely to be misappropriated. Specifically, mobile, technologically-savvy employees, increased use of external contractors and

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consultants, and the very nature of information technology all provide increased opportunities for theft of trade secrets. These days it is much easier for a dissatisfied employee to walk out the door with a thumb drive in his or her pocket than to break into a company safe or secured area.

As trade secret use and trade secret misappropriation increase in the digital age, so too does trade secret litigation. In fact, trade secret litigation in federal courts is growing dramatically, doubling in the period from 1988 to 1995 and doubling again between 1995 and 2004.<sup>1</sup>

### Trade Secret Litigation Challenges

Trade secret cases are distinct from other intellectual property lawsuits. First, there is not a discrete, federal body of law governing such disputes.<sup>2</sup> Rather, trade secret law is state-based and surprisingly non-uniform, even though a majority of states have adopted some version of the Uniform Trade Secrets Act.

Intriguingly, courts apply the laws of Illinois, California, or New York a large percentage of the time, and also rely on nonbinding authority, possibly because of the highly fact-specific nature of trade secret claims.<sup>3</sup>

Second, by their nature, the subject matter of the secrets involved in a trade secret case is not generally known. This is in stark contrast to patent cases, trademark cases involving federally registered trademarks, and copyright cases—where the intellectual property at

<sup>1</sup> David S. Almeling et al., *A Statistical Analysis of Trade Secret Litigation in Federal Courts*, 45 GONZAGA LAW REVIEW 291, 293 (2010).

<sup>2</sup> *But see Tianrui Group Co. v. International Trade Commission*, 661 F.3d 1322, 1327, 100 USPQ2d 1401 (Fed. Cir. 2011) (82 PTCJ 810, 10/14/11) (holding that a single federal standard, rather than the law of a particular state, should govern the determination of what constitutes misappropriation of trade secrets sufficient to constitute unfair competition under Section 337, although this is perhaps limited to situations where the alleged misappropriation actions are extraterritorial, as was the case in *Tianrui*).

<sup>3</sup> Almeling at 294, 311.

issue has been publicly filed with the government and can be scrutinized by the public and the parties.

Since the complaint will usually only identify the trade secrets with the barest detail to meet the notice pleading requirements while preserving the confidentiality of the trade secrets,<sup>4</sup> the defendant may not know exactly what it is being accused of having stolen. Therefore, the timing and sufficiency of trade secret identification are almost ever-present contentions in trade secret litigation.

### Policy Underlying Sufficient Identification of the Misappropriated Trade Secrets

The competing goals of the parties regarding trade secret identification have been discussed at length in the case law. Six primary policies can be identified: three favoring the plaintiff's usual goal of delaying identification as long as possible, and three favoring the defendant's desire to have the trade secrets identified early and with particularity.

First, the plaintiff has a broad right to discovery. As set forth in the Federal Rules of Civil Procedure, litigants "may obtain discovery regarding any matter, not privileged, which is relevant to the subject matter involved in the pending action, whether it relates to the claim or defense of the party seeking discovery or to the claim or defense of any other party."<sup>5</sup> A liberal interpretation of the discovery rules has led courts in some trade secret cases to grant a plaintiff's motion to compel discovery from the defendant before the allegedly misappropriated trade secrets have been identified with particularity.<sup>6</sup>

Second, a plaintiff can put forth the related argument that discovery from the defendant is necessary before it can determine which trade secrets have been misappropriated. Although this sounds slightly backwards, it is a regular occurrence that the trade secret owner does not know precisely what was taken, and the actual identification of the trade secrets can occur only after discovery of the defendant's material. Federal and state courts have also been sympathetic to this approach, compelling discovery from the defendant before identification of trade secrets is required.<sup>7</sup>

Third, it can be very challenging for plaintiffs to identify trade secrets successfully or sufficiently at an early stage of the litigation. Since plaintiffs may not know precisely what trade secrets have been misappropriated, they may be required to identify myriad trade secrets to formulate a complete list, disclosing extraneous confidential information to the defendant along the way.

An alternative is to disclose the trade secret list more generally. However, in that case, the list may encom-

pass items that the defendant will be able to argue cannot be considered trade secrets. Conversely, if the trade secrets are identified too narrowly or with too much specificity, they may not sufficiently encompass those misappropriated by the defendant.

A common policy counter-argument for defendants is that the plaintiff in trade secret cases is merely on a fishing expedition. Discovery of the defendant's own confidential information could be used to support an otherwise baseless lawsuit or simply be used by the plaintiff for its own nefarious purposes. Many courts have recognized the legitimacy of this position, issuing protective orders until the plaintiff has identified the allegedly misappropriated trade secrets sufficiently to put the defendant on notice.<sup>8</sup>

Second, defendants can counter a plaintiff's alleged need for discovery with the equally important need for evaluating the relevance of discovery requests. Although relevance in discovery requests tends to be defined very broadly, many courts have held that a plaintiff must specify its trade secrets to some extent before obtaining discovery from the defendant in order to satisfy the relevancy requirement.<sup>9</sup>

Last, defendants require identification of the allegedly misappropriated trade secrets to allow them adequate opportunity to prepare their defense. Courts have recognized that the unfairness in preventing the defendant from having the time and information required to defend its case supports an early identification of trade secrets.<sup>10</sup>

### The Modern Trend Is Toward Early Identification

Although the plaintiff's policy arguments discussed above have been considered compelling in the past, the modern trend appears to be in favor of the defendant's goal of early identification of the trade secrets at issue. This is most clearly exemplified by California, which has passed a statute requiring the plaintiff in a trade secret case to identify the trade secret before conducting discovery relating to it.<sup>11</sup> Illinois is on track to follow suit, with a proposed revision to its trade secrets act that would require an early, conclusive identification of trade secrets with reasonable specificity.<sup>12</sup> Moreover, several states in a variety of circuits have established common law rules requiring a plaintiff to identify its trade secrets at issue early in the litigation.<sup>13</sup>

<sup>8</sup> See, e.g., *In re IBM Peripheral EDP Devices Antitrust Litigation*, 77 F.R.D. 39 (N.D. Cal. 1977), *Engelhard Corp. v. Savin Corp.*, 505 A.2d 30 (Del. Ch. 1986), and *DeLong Corp. v. Lucas*, 138 F. Supp. 805, 122 USPQ 471 (S.D.N.Y. 1956).

<sup>9</sup> See *Xerox Corp. v. International Business Machines Corp.*, 64 F.R.D. 367 (S.D.N.Y. 1974), *Leucadia Inc. v. Applied Extrusion Technologies Inc.*, 755 F. Supp. 635 (D. Del. 1991), and *Engelhard Corp. v. Savin Corp.*, 505 A.2d 30 (Del. Ch. 1986).

<sup>10</sup> See *Vermont Microsystems Inc. v. Autodesk Inc.*, 88 F.3d 142, 39 USPQ2d 1421 (2d Cir. 1996), and *Litton Systems Inc. v. Sundstrand Corp.*, 750 F.2d 952, 224 USPQ2d 252 (Fed. Cir. 1984).

<sup>11</sup> CAL. CIV. CODE § 2019.210(d).

<sup>12</sup> S.B. 2149, 96th General Ass. (Ill. 2010), pending Senate Assignment Committee action.

<sup>13</sup> See, e.g., *Hill v. Best Medical International Inc.*, No. 07-1709, 2011 BL 274306 (W.D. Pa. Oct. 24, 2011), *Avaya Inc. v. Cisco Systems*, No. 10-5881, 2011 BL 267052 (D.N.J. Oct. 17, 2011), *L-3 Communications Corp. v. Jaxon Engineering & Maintenance Inc.*, 10-cv-02868-MSK-KMT (D. Colo. Oct. 12,

<sup>4</sup> FED. R. CIV. P. 8(a). See also *Bell Atlantic Corp. v. Twombly*, 550 U.S. 544 (2007) and *Ashcroft v. Iqbal*, 556 U.S. 662 (2009) (holding that a well-pleaded complaint only needs to provide enough facts to raise a reasonable expectation that discovery will reveal evidence for the claim).

<sup>5</sup> FED. R. CIV. P. 26(b)(1).

<sup>6</sup> See *Upjohn Co. v. Hygieia Biological Laboratories*, 151 F.R.D. 355 (E.D. Cal. 1993) and *Metal Foil Products Manufacturing v. Reynolds Metals Co.*, 55 F.R.D. 491 (E.D. Va. 1970).

<sup>7</sup> See *Microwave Research Corp. v. Sanders Associates Inc.*, 110 F.R.D. 669 (D. Mass. 1986), *qad. Inc. v. ALN Associates Inc.*, 18 USPQ2d 1122 (N.D. Ill. 1990), and *MicroTech International Inc. v. Fair*, No. 32-83-08 (Conn. Super. Ct. Sept. 18, 1992).

## Advantages in Early Identification

Although it may seem like the modern trend favors defendants, there are advantages for both sides in identification before discovery.

Plaintiffs can use the trade secret identification requirement as an early opportunity to shape the litigation, including setting the scope for potential discovery. An early description also allows the plaintiff to get straight to work identifying experts and building the best possible case.

Accurate disclosure of the trade secrets at issue also allows the defendant to investigate the claim. If the defendant concludes that the claim is even arguably valid, the defendant could learn early on that it might be more economical to settle than fight the litigation through trial. Relatedly, identifying the trade secrets early increases pressure on the defendant at an early stage, forcing it to substantively reply to discovery requests rather than waste time with delay tactic motion practice.

On the other side of the coin, the benefit to the plaintiff can be avoiding sanctions, as in *Degussa Admixtures Inc. v. Burnett* where attorneys' fees were awarded because the failure to identify trade secrets with any specificity was considered part of the bad faith in bringing the claim in the first place.<sup>14</sup> Early identification of trade secrets can also help a plaintiff survive summary judgment, as "courts have frequently granted summary judgment for the defense based on a failure to sufficiently identify the trade secret claims."<sup>15</sup>

The advantages for the defendant are inherent in the policy discussion above. Once the trade secrets have been identified, the defendant can evaluate the validity of the claim and the relevance of any discovery requests. The results of this evaluation may promote an early settlement in the event that the trade secret claims are strong. Early identification also provides the defendant with sufficient time and information to develop defenses while allowing the defendant to comply with the scope of discovery without accidentally sharing their own trade secrets or confidential information.

## What Is Sufficient Identification?

The law underlying the trend requiring early identification is relatively straightforward. However, the law determining what constitutes sufficient identification is another story.

The California statute and the bulk of the case law use the same standard: the trade secrets must be identified with "reasonable particularity." However, this ethereal standard is difficult to define because of the highly fact-specific nature of trade secret cases.

The complexity of the technology and the type of misappropriation that occurred can alter what is required between otherwise very similar cases. Furthermore, a

defendant can argue that both a too-sparse description or a too-detailed description fail to meet the requirement of reasonable particularity.

Since there is very little concrete guidance for plaintiffs when disclosing their trade secrets, even a good faith disclosure can result in time-wasting litigation as to whether or not the trade secrets have been sufficiently identified. The following survey of Delaware trade secret cases illustrates the range of disclosures considered sufficient by the court, although the cases individually provide little guidance because the trade secrets descriptions are not, for obvious reasons, disclosed in the cases.

## Delaware Case Studies

- i. *Broad, general statement is insufficient*: It is well established that a broad, general statement describing "confidential information" or the like is insufficient to meet the standard of reasonable particularity. In *Magnox v. Turner*<sup>16</sup> the defendant objected to the plaintiff's discovery requests because they were so broad the defendant was unable to determine the relevance of the requests. The court agreed that mere allegations that the defendant had "knowledge of Magnox's confidential, proprietary information" while failing to further identify this confidential information were insufficient.<sup>17</sup> Thus, the court ordered the plaintiff to provide a more particularized statement before the defendant was required to respond to discovery requests.
- ii. *General description of process is sufficient*: Although a general statement will not be sufficient, a general outline of a process may meet the standard. In *Miles Inc. v. Cookson America Inc.*,<sup>18</sup> the plaintiff moved to compel the defendant to respond to various discovery requests. The defendant objected, saying plaintiff's document "generally outlining the processes that Miles utilizes in producing the pigments at issue" was insufficient to put it on notice as to exactly which trade secrets are alleged to have been misappropriated.<sup>19</sup> The court disagreed, holding that this statement is acceptable because it sets forth with reasonable particularity the processes it claims are the trade secrets that Cookson misappropriated.
- iii. *Broad list of items is sufficient*: In *Leucadia Inc. v. Applied Extrusion Technologies Inc.*,<sup>20</sup> the defendant filed a motion to force identification of the allegedly misappropriated trade secrets. The plaintiff complied, and filed under seal an itemized list of trade secrets and a list of measures used to protect the secrets. The defendant asserted it was inadequate, but the court said the plaintiff was not required to file a more definite statement specifying its trade secrets, because that would result in public disclosure of the purported trade secrets. This case is particularly interesting because the defendant argued that the

2011), *Deltek Inc. v. Iuvo Systems Inc.*, 91 USPQ2d 1926 (E.D. Va. Apr. 20, 2009), *Boston Laser Inc. v. Zu*, No. 3:07-CV-0791, 2007 BL 123420 (N.D.N.Y. 2007), *Glasson Aerospace Science Inc. v. RCO Engineering Inc.*, No. 08-13667 (E.D. Mich. May 14, 2009), and *Storagecraft Technology Corp. v. Symantec Corp.*, No. 2:07-CV-856 CW, 2009 BL 8893 (D. Utah Jan. 16, 2009), among others.

<sup>14</sup> Nos. 07-1302, 07-1498 (6th Cir. May 5, 2008).

<sup>15</sup> Charles Tait Graves & Brian D. Range, *Identification of Trade Secret Claims in Litigation: Solutions for a Ubiquitous Dispute*, 5 NW. J. TECH. & INTELL. PROP. 68, 87 (2006).

<sup>16</sup> No. 1195 (Del. Ch. Sept. 10, 1991).

<sup>17</sup> *Id.*

<sup>18</sup> No. 12,310 (Del. Ch. June 16, 1992).

<sup>19</sup> *Id.* at \*1.

<sup>20</sup> 755 F. Supp. 635 (D.Del. 1991).



list included items that could clearly not be considered a trade secret, yet the court held it to be sufficient.

- iv. *Comprehensive disclosure over 37 pages is acceptable*: Defendants can also argue that plaintiffs are attempting to hide the ball by burying the trade secrets at issue (or suspected to be at issue) in a large volume of unrelated information and then narrowing the claim after discovery. In *Smithkline Beecham Pharmaceuticals Co. v. Merck & Co.*<sup>21</sup> the plaintiff initially identified its trade secrets by describing its entire process over 37 pages, including the compilation and combination of information making up the process and major process stages. After discovery, the plaintiff narrowed the list of allegedly misappropriated trade secrets and the defendant cried foul, calling this tactic a “bait and switch” approach.<sup>22</sup> However, the Delaware District Court took the position that the initial, broader disclosure was sufficient to put the defendant on notice of what was it issue. It then reasoned that the defendant was not prejudiced in any way by either the seemingly large description or the subsequent narrowing thereof.
- v. *List of 103 items over 54 pages is acceptable*: In *Struthers Scientific and International Corp. v. General Foods Corp.*<sup>23</sup> the defendant argued that the plaintiff failed to disclose the misappropriated trade secrets with reasonable particularity because of the volume of disclosure. The defendant also asserted that the description contained public information that could not be considered a trade secret. The court disagreed, stating that the 54 page answer was responsive in specifying the

trade secrets and denying the defendant’s motion to compel additional/clarifying information or itemization.<sup>24</sup>

### Applying the Lessons From the Delaware Cases

Although the cases individually provide little guidance, together they suggest a willingness of the courts to approve a good-faith effort on the part of the plaintiff to provide the defendant with notice of what is alleged to have been misappropriated in the face of the defendant’s inevitable argument that the disclosure is insufficient for one reason or another. In other words, understanding the general policy underlying the disclosure requirement (avoiding fishing expeditions, allowing the defendant to evaluate the relevancy of discovery requests, and providing sufficient information so that the defendant can adequately prepare a defense) should allow successful application of the law to various fact-specific scenarios in a manner advantageous to both parties. In addition, all the cases discussed above implement various forms of protective orders in order to prevent accidental disclosure of confidential information, and both plaintiffs and defendants should make use of this tool.

### Conclusion

Disputes about the timing and sufficiency of identification of trade secrets are common in trade secret litigation. However, the courts have not established a uniform set of standards or guidelines useful to litigants. Disclosing trade secrets early is on its way to being the standard requirement, and therefore the real fight tends to be about whether or not the trade secrets have been disclosed with reasonable particularity. Understanding the general policy underlying the disclosure requirement should allow successful application of the law to various fact-specific scenarios in a manner advantageous to both parties.

<sup>21</sup> 766 A.2d 442 (Del. 2000).

<sup>22</sup> *Id.* at 447.

<sup>23</sup> 51 F.R.D. 149 (D.Del. 1970).

<sup>24</sup> *Id.* at 152.