

How Courts Approach Trade Secret Identification: Part 2

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As discussed in the first part of this article, early trade secret identification is a thorny issue. Courts and commentators have not reached consensus on the need for early identification, the process for early identification or the ramifications of failure to do so. The answers to those questions begin with an understanding of the purpose of early trade secret identification.

The Purpose of Early Trade Secret Identification

The purpose of early trade secret identification is simple: notice. In any litigation, the defendant is entitled to understand the factual and legal bases for the claims against it. Ordinarily, this can be accomplished in the complaint. However, in trade secret cases, notice cannot be as fully accomplished in a complaint as in other cases because most complaints are matters of public record. In trade secret cases, however, the specific trade secrets at issue are secret and, thus, cannot be made part of the public record without destroying their value. Early trade secret identification should be designed to solve this problem by providing a ready vehicle for a statement of the trade secrets at issue that is not on the public record. Doing so levels the playing field for trade secret cases with other civil cases.

If the purpose of early trade secret identification is simply notice, the proper scope and ramifications of the exercise becomes clear. Early trade secret identification is simply a disclosure to provide notice much like the complaint itself. Our specific proposal for early identification appears at the end of this article.

But, it is equally important to understand what the purpose of early trade secret identification is not: adjudication. Confusion among courts and commentators can largely be traced to approaches in which the early trade secret identification purports to serve some adjudicative function. This is wrong. And rather than level the playing field for trade secret cases, early identification that serves an adjudicative function subjects trade secret cases to special requirements beyond those applicable to other civil cases and is not supported by the rules of civil procedure. Indeed, it is where early identification is required to serve an adjudicative function that trade secret litigation most often goes off the rails.



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A Note on Sealing

Before addressing that issue, a note on filing sealed complaints is needed. At first blush, one might think the special problem of trade secret identification at the outset of a case could be solved simply by filing the complaint under seal. Although most courts permit filing complaints under seal by application, sealing is more a red herring than a panacea. That is because in most instances sealing is only temporary and, by application, the sealing party — here the trade secret holder — must prove the secrecy and value of the information sealed for the court to keep it that way for very long. In this way, the sealing process requires the trade secret holder to successfully adjudicate its trade secrets before the case even begins. Savvy defendants will use sealing motions as vehicles to get an early first bite at the apple by seeking to have sealed materials unsealed, thereby destroying any value they might have as trade secrets before discovery even begins. Because the purpose of the complaint is notice and not adjudication, sealing is not a viable alternative to early trade secret identification.

Misguided Approaches to Trade Secret Identification

Many prior attempts at standardizing trade secret identification have been based on a false premise. One common error starts by analogizing trade secrets to other types of intellectual property and assumes that the purpose of early trade secret identification is to require the trade secrets holder to identify its secrets with patent-like specificity. Commentators advocating for this approach often lament that there is no national trade secret registry to start with and seek to mitigate that “problem” with early identification. In doing so, they deny the common law origins of trade secret law.[1] Unlike patents, trade secrets do not require prior approval from a governmental organization. And the rights associated with them are quite different.

Indeed, the analogy to patent rights is often overblown. To be sure, trade secret law and intellectual property law share many common policy objectives, including the promotion of innovation, competition through information disclosure, and protection of property interests in discoveries that provide innovators with a competitive edge.[2] In practice, however, trade secret litigation has far more in common with breach of contract and other commercial law claims than intellectual property claims. Trade secret claims overwhelmingly overlap with breach of contract claims.[3] Unlike other forms of intellectual property, contracts play a central role in commercializing trade secrets — most from nondisclosure agreements that set the bounds of the rights to the trade secrets. Not surprisingly, data available through Lex Machina’s newly launched trade secrets tracking platform indicates that over 88 percent of all trade secret cases across all jurisdictions include overlapping breach of contract claims.

Finally, analogizing trade secret cases to other types of intellectual property matters tends to ignore the validity of negative know-how as a trade secret. Negative know-how is the flip side of what is developed through the research process: the result of trial and error in learning what does not work that, in many instances, is more valuable than learning what does work. Famously, WD-40 is so named because of the 39 prior iterations of the product that did not “work.” Try identifying those 39 prior iterations with patent-like specificity for a trade secret claim and you can see why the patent model does not work. Identifying negative know-how trade secrets requires plaintiffs to specifically define a large and unwieldy body of information, bearing little resemblance to the discrete trade secrets a former employee or competitor may have taken.

Other erroneous approaches have been crafted from the premise that bogus or trumped-up trade secret misappropriation claims are rampant — a common harassment technique for jilted former employers — and in some cases commentators go so far as to advocate for sanctions based on failure to

provide enough information.[4] From that premise, commentators have argued for (and often won) a “pre-discovery” trade secret identification process where the court must affirmatively bless the “sufficiency” of the trade secret identification before the defendant is subject to discovery.

The trend toward pre-discovery trade secret identification is, frankly, troubling in many instances. First, there is no actual evidence of the supposed abuse. To the contrary, according to Lex Machina, plaintiffs succeed in a far larger percentage of matters than patent or even general commercial cases, which refutes any assertion that meritless cases are a unique “problem” to trade secrets law. Second, there is no basis in the civil rules for treating trade secret cases so differently. In other types of civil litigation, discovery proceeds without the need for the court to approve certain disclosures or earlier discovery unless otherwise ordered.

Finally, in jurisdictions that have adopted a pre-discovery trade secret identification process, the process has become a tool of delay. And fights over sufficiency of the trade secret identification have often bled over from the specificity of the identification itself (i.e., Can the defendant understand the identification?) to the merits (i.e., Does the trade secret identified qualify?). Obviously, this is not desirable from the perspective of protecting intellectual property or administration of justice.

Nor has pre-discovery trade secret identification across multiple jurisdictions for over three decades led to predictable results such that there is now a consensus on the level of specificity required. Courts are essentially all over the place in what level of specificity is required for early identification. One court acknowledged the “divergent rulings from various federal courts on the issue of whether to require pre-discovery identification of trade secrets” and suggested a “case-by-case decision” where courts “use their broad discretion based heavily on the distinct circumstances of any particular action.”[5]

A New Solution

This article proposes a model trade secret identification process that serves the interests of both sides in a trade secret dispute by ensuring the defendant gets “notice” of what trade secrets are at issue, while at the same time ensuring that the process does not become an adjudicative function or serve the ends of delay.

What?

Trade secret identification should be incorporated as a required part of Rule 26(a) initial disclosures in all cases involving trade secret claims.

How?

Individual courts would adopt model rules or amendments to local rules that require trade secret identification as a category to include in initial disclosures which are typically exchanged no later than 14 days after the parties’ Rule 26(f) conference. As explained in the advisory committee notes, Rule 26(a) requires an investigation and disclosure of information “reasonably available” to the parties. However, the rule does not impose these obligations on information “in the possession of another party or person.” A similar approach is appropriate for trade secret identification.

This is already happening in certain federal district courts under the Mandatory Initial Discovery Pilot Project, a three-year study authorized by the Judicial Conference of the United States to determine whether requiring parties in certain civil cases to respond to a series of focused and mandatory

discovery requests, before undertaking further discovery, will reduce the delay and cost currently associated with discovery.[6] This approach replaces initial disclosures under Rule 26(a) with seven standing discovery requests intended to accelerate the disclosure of information and allow the parties to evaluate the strengths and weaknesses of their positions. Specifically, parties are required to respond to seven discovery requests regarding the identity of individuals likely to have discoverable information relevant to the litigation, relevant documents and tangible things, relevant facts and legal theories, a damages calculation, and relevant insurance agreements. The parties must respond within an established time frame — generally not later than 30 days after the first responsive pleading is filed — and based on reasonably available information following a reasonable inquiry into the facts.

Why?

Initial disclosures are a known and proven workable framework for exchanging information between parties. Initial disclosures are early enough in the process to provide defendants with notice and allow them to begin crafting a defense, but avoids delaying discovery or turning into a gating issue for plaintiffs who face a recurring Catch-22 because much of the information about defendant's alleged misappropriation is in defendant's control, and plaintiff cannot access that information without the aid of discovery. Incorporating trade secret identification into Rule 26(a) encourages prompt discovery, allowing the parties to more efficiently sharpen the issues in the case, but within a framework that is both familiar and mandatory.

Costly disputes over trade secret identification would be discouraged, and courts and litigants could focus on the core issues rather than a sideshow. Furthermore, the process and time frames for resolving arguments as to the sufficiency of Rule 26(a) disclosures are well-established. A disappointed defendant can meet and confer and ultimately file a motion for more information, or even for a stay, but neither is granted as a matter of course. And, most importantly, the litigation moves forward without the need for court intervention.

Adopting a model trade secret identification rule that coincides with Rule 26 initial disclosures has the added benefit of not only increasing the predictability of litigation, but permitting litigants to bargain around this process by including clear language in future licenses or nondisclosure agreements or explicitly identifying the contested trade secrets at issue in the relevant contracts. This would more effectively put potential defendants on notice of their obligations. To the extent that a company or individual contracts for a trade secret without understanding the trade secret with specificity, that lack of clarity is a problem of defendant's own making.

A Path Forward

This proposed solution on the thorny and contested issue of trade secret identification would be a win-win for plaintiffs, defendants and the courts alike. But, at a very minimum, this article aims to open up a useful discussion about a key issue in the increasingly high stakes world of trade secrets disputes.

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[1] James Pooley, *The Myth of the Trade Secret Troll: Why the Defend Trade Secrets Act Improves the Protection of Commercial Information*, 23 *GEO. MASON L. REV.* 1045, 1048 (2016).

[2] See, e.g., *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 484-85 (1974) (explaining that "the patent policy of encouraging invention is not disturbed by the existence of another form of incentive to invention" like trade secret protection, and "trade secret law will encourage invention in areas where patent law does not reach, and will prompt the independent innovator to proceed with the discovery and exploitation of his invention." (citing Gordon L. Doerfer, *The Limits on Trade Secret Law Imposed by Federal Patent and Antitrust Supremacy*, 80 *Harv. L. Rev.* 1432, 1454 (1967))).

[3] Deepa Varadarajan, *The Trade Secret-Contract Interface*, 103 *Iowa L. Rev.* 1543, 1544 (2018) ("Non-disclosure contracts are one of the few ways that information recipients are alerted to the existence and scope of trade secrets. The notice function of contracts is an important and under-appreciated aspect of the trade secret-contract relationship. When assessing trade secret validity, courts should explicitly recognize and reinforce the notice function of contracts.").

[4] Charles Tait Graves and Brian D. Range, *Identification of Trade Secret Claims in Litigation: Solutions for a Ubiquitous Dispute*, 5 *Nw. J. Tech. & Intell. Prop.* 68 (2006) ("Because non-identification is a lawyers' tactic used to gain an unfair litigation advantage, we believe that sanctions should be readily awarded where a trade secret plaintiff tries to supply as little information as possible and hopes that the court will not require more.").

[5] *A&P Tech., Inc. v. Lariviere*, No. 1:17-CV-534, 2017 WL 6606961, at *8 (S.D. Ohio Dec. 27, 2017); *JJ Plank Co., LLC v. Bowman*, No. 3:18-CV-00798, 2018 WL 3545319, at *3 (W.D. La. July 23, 2018) (explaining that "a mandate has not arisen" regarding trade secret identification in part because "[t]his area of litigation is complex, contentious, and fact-intensive."); *Vesta Corp. v. Amdocs Mgmt. Ltd.*, 147 F. Supp. 3d 1147, 1155 (D. Or. 2015) (explaining that "whether a plaintiff has sufficiently disclosed its trade secrets is 'a fact-specific question to be decided on a case-by-case basis.'" (quoting *L-3 Commc'ns Corp. v. Jaxon Eng'g & Maint., Inc.*, No. 10-CV-02868-MSK-KMT, 2011 WL 10858409, at *2 (D. Colo. Oct. 12, 2011))).

[6] *Mandatory Initial Discovery Pilot Project: Overview*, Federal Judicial Center, <https://www.fjc.gov/content/321837/mandatory-initial-discovery-pilot-project-overview> (last visited Aug. 13, 2018).