



You just stole my trade secrets...Want some more? Can litigation place trade secrets at risk?

Insights

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It is 4:15 on Friday afternoon. The office manager and entire sales team from your Chicago office have just resigned without notice to join a competitor. The office manager attended all of the company's strategic planning meetings in late 2007, which led to the rollout of your 2008 business plan. The sales reps control two of the company's top five accounts, and it appears they have already started calling the clients, perhaps even prior to their surprise resignation. Various client files are missing or incomplete, and certain computer files appear to have been downloaded and then deleted. Your CEO's first inclination is to pursue immediate legal action against the former employees and the firm that hired them. "We need to find out what they took, when they took it, and how they are using it!" His second remark is a question: "What do you mean we might have to show our trade secrets to our competitor if we file a lawsuit?"

Further disclosure of trade secrets through litigation is a valid concern. Courts around the country have held that plaintiffs must specifically identify the trade secrets at issue. This means that trade secret plaintiffs may have to actually disclose the trade secrets they believe the defendants misappropriated, and not just in a summary, descriptive fashion. In one case, a plaintiff identified the trade secrets it believed to be at risk by producing "six single spaced, typewritten pages listing by general item and category hundreds of pieces of [the company's] internal information." The plaintiff's list included: "business and strategic planning information for the Components & Assemblies Division; new product development information; manufacturing information, including equipment, processes, cost and capacity information; financial information, including product-line profit-margin, sales, and budget information; and marketing and customer information." An appellate court found this rather extensive, yet non-specific, list to be insufficient and stated: "[C]ourts have warned plaintiffs of the risks they run by failing to identify specific trade secrets and instead producing long lists of general areas of information which contain unidentified trade secrets."

Courts often require much more than just a description of a plaintiff's alleged trade secrets. In *IDX Systems Corp. v. Epic Systems Corp.*, 285 F.3d 581 (7th Cir. 2002), the plaintiff tried to argue that "a 43-page description of the methods and processes underlying and the inter-relationships among various features making up IDX's software package" is specific enough. *IDX*, 285 F.3d at 583. The appellate court's response was "No, it isn't." *Id.*

Courts understand why plaintiffs do not want to identify their trade secrets with

specificity.” Reluctance to be specific is understandable; the more precise the claim, the more a party does to tip off a business rival to where the real secrets lie and where the rival’s own development efforts should be focused.” /d. However, courts also recognize that generalized lists of trade secrets do little to enable a plaintiff to prove its case, and deprive a defendant of its right to challenge the plaintiff’s case. Indeed, even Coca-Cola, the holder of what is arguably the world’s most widely recognized trade secret, was not immune from producing its trade secrets: “The potential harm that would come from public disclosure of the formulae for old Coke, new Coke, diet Coke, and caffeine free Coke is great, but virtually all of that harm can be eliminated with stringent protective orders and other safeguards.” *Coca-Cola Bottling Co. v. Coca-Cola Co.*, 107 F.R.D. 288 (D. Del. 1985) (internal citation omitted). So what is a plaintiff to do if it wishes to minimize disclosure of its trade secrets during litigation while maximizing its ability to discover what information may have been taken by defendants? Here are five tips to keep in mind:

1. Narrowly identify the trade secrets at issue. It is not uncommon for trade secret plaintiffs to allege that everything and anything qualifies as its trade secrets. Plaintiffs commonly assert broad allegations claiming that the allegedly misappropriated trade secrets include secret formulas, customer lists, customer preferences, business methods, etc. Although such descriptive phrases may be appropriate for a publicly filed complaint, the time may come in litigation when specificity is required. If that happens, a broader description of trade secrets may backfire and necessitate a broader disclosure. A narrow description targeted on the precise secrets at issue can go a long way towards limiting the discovery sought by defendants.

2. Make sure claims are based on fact, not speculation. Many trade secret plaintiffs cast a wide net in framing their allegations. Plaintiffs sometimes argue that they were not around when the misappropriation took place, and therefore they need to thoroughly review all of the defendants’ files so they can identify the stolen trade secrets. Defendants counter by arguing that plaintiffs should not be granted access to a competitor’s trade secrets for the mere price of a filing fee. Courts are more likely to permit plaintiffs to take discovery, and to limit defendants’ counter-discovery, if the allegations at issue are rooted in fact. Consequently, detailed allegations focused on narrow trade secrets arising out of concrete circumstances (e.g., the defendants downloaded our written 2008 strategic business plan) will go a long way toward limiting discovery to truly necessary issues.

3. Avail yourself of procedural protections. Statutes and court rules provide ways in which plaintiffs can be protected against further misappropriation. For example, the vast majority of states across the country have enacted a version of the Uniform Trade Secrets Act. These statutes commonly require that a court “shall” preserve the secrecy of an alleged trade secret by reasonable means which may include, but are not limited to, granting protective orders in connection with discovery proceedings, holding in camera hearings, sealing the records of the action, and ordering any person involved in the litigation not to disclose an alleged trade secret without prior court approval. Similarly, state and federal rules of court commonly provide for the issuance of protective orders directing that a trade secret or other confidential research, development or commercial information shall not be disclosed or be disclosed only in a designated way.

4.Assert credible non-trade secret claims that focus on defendants' conduct.Trade secret plaintiffs have the burden of establishing more than misappropriation; they must establish that the allegedly misappropriated information qualifies as a trade secret in the first place.To meet this burden, extensive disclosure may be necessary.Asserting non-trade secret claims may enable a plaintiff to frame issues for discovery by more heavily focusing claims on the defendants' conduct.For example, information taken from a computer may give rise to a claim under the federal Computer Fraud & Abuse Act ("CFAA").Although the CFAA has many specific requirements, a plaintiff need not establish that the information at issue constitutes a trade secret.Consequently, plaintiffs can argue that CFAA claims require greater disclosure from defendants because they focus more squarely upon what the defendants took, and when and how they took it.Other claims, such as a breach of duty of loyalty and breach of non-disclosure agreements, may carry the same benefit.

5.An ounce of prevention is worth a pound of cure.As noted above, in order to succeed on a trade secret claim, a plaintiff must establish that the information at issue is in fact a trade secret.To do so, plaintiff must demonstrate that information was the subject of efforts that are reasonable under the circumstances to maintain its secrecy.Ironically, if a company takes reasonable steps to ensure the secrecy of its information, it may actually prevent misappropriation from occurring in the first place.For more detail on steps that companies can take in an effort to protect their trade secrets, see the posts on this blog entitled "Protecting Trade Secrets: Confidential Information and Customer Relationships Audits" and "Implementing a Trade Secrets Protection Program".

In sum, a trade secret plaintiff may risk further disclosure of trade secrets if it commences litigation, but careful planning and solid legal counsel can help manage that risk and minimize unnecessary disclosure.

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