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How Courts Approach Trade Secret Identification: Part 1

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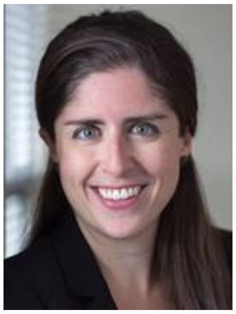

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Protecting intellectual property has never been more important. For S&P 500 companies, intangible assets like IP rights represent over 80 percent of their market value, up from just 17 percent in 1975.[1] And as patents become more difficult to enforce,[2] companies are increasingly turning to trade secrets to protect those assets, leading to an increase in trade secret litigation. But trade secret law has been slow to adapt to the changing realities of the global economy where new technologies and products cross borders and digital frontiers, employees more frequently transition between jobs, and IP includes business processes, techniques, and customer data.

Given this backdrop, courts and some legislatures have attempted to create uniform trade secret protections across venues to increase predictability and certainty for victims of trade secret misappropriation. At the center of these efforts is this threshold question: What are the trade secrets at issue and when and how should they be identified? There is no registration process for trade secrets ahead of litigation. And because a trade secret is one of the most elastic concepts in the law — virtually anything not generally known could be a trade secret if it has value from not being generally known[3] — a plaintiff must tell the defendant and the court what, exactly, is being litigated in a particular case. But when, and how, and with what level of specificity? These questions have yet to be uniformly addressed, and failure to do so increases the costs and uncertainty associated with trade secret litigation.

The first article of this two-part series focuses on the current state of early trade secret identification in courts and whether it comports with the goals of recent legislative efforts like the Defend Trade Secrets Act.

The Goals of Trade Secret Laws

The goals of trade secret laws are both to prevent the theft of trade secrets and provide companies with a means of recovery when their trade secrets are stolen. American companies bear the significant costs of trade secret theft. The Commission on the Theft of American Intellectual Property estimates that trade secret theft causes annual losses of over $300 billion to the American economy and 2.1 million American jobs each year.[4] Likewise, the Center for Responsible Enterprise and Trade and PwC estimate that the cost of trade secret theft to the American economy is equivalent to 1-3 percent of America's annual GDP, or $160-$480 billion annually.[5] Beyond financial losses, trade secret theft harms American competitiveness and innovation by decreasing incentives for investing in research and development.[6]

State and Federal Trade Secret Law

Despite the high stakes, lack of uniformity has plagued trade secret cases for decades. The law governing misappropriation of trade secrets historically developed separately in each state. In 1979, the Uniform Law Commission passed the Uniform Trade Secrets Act to unify state law governing trade secrets and create predictability for parties litigating trade secret cases.[7] But, key commercial centers like New York never passed the UTSA. Some jurisdictions passed modified, state-specific versions of the UTSA. And in still other jurisdictions, identical provisions of the UTSA were interpreted by courts differently. In short, the UTSA failed in its central mission — to achieve uniformity. This resulted in a patchwork of state trade secret laws with legally-significant differences for victims of trade secret theft.[8] Companies lamented the high costs and slow pace of litigation when bringing claims under state UTSA laws. Commentators complained that state courts were not equipped to address trade secret dissemination across state and national borders, and in many cases, cannot provide cross-jurisdictional discovery or efficient remedies.[9]

To address these concerns, in 2016, Congress passed the Defend Trade Secrets Act. Although it does not preempt the UTSA, the DTSA:

Provide[s] a single, national standard for trade secret misappropriation with clear rules and predictability for everyone involved. Victims will be able to move quickly to Federal court, with certainty of the rules, standards, and practices to stop trade secrets from winding up being disseminated and losing their value.[10]

American companies drove this change, demanding a solution to the problems posed by trade secret theft in today's global, data-driven economy. [11] The DTSA addressed many of the problems with inconsistent state-specific trade secret misappropriation claims, providing victims of trade secret theft with tools to protect trade secrets in the digital age.

Current State of Trade Secret Identification

Trade secrets are, by definition, secret. This creates a problem unique to trade secret litigation: The IP at issue cannot be identified in a public complaint without destroying its status as IP. Thus, trade secret law has evolved to require only the most basic description of the trade secrets in the complaint. The dispute over further identification of trade secrets is then left to be resolved in the litigation itself.

Thus, early trade secret identification at least could be an issue common to every single trade secrets case regardless of issue, size or jurisdiction. Nearly everyone agrees that the trade secrets at issue in the litigation must be identified. But when? And with what level of specificity? And what happens if they are not?

In practice, the process for early identification of trade secrets can devolve into a disparate, inconsistent morass without a single, unifying principle. The sheer variety of approaches among jurisdictions to this common issue proves this point: California and a few other states have codified a trade secret identification rule for every case and courts stay discovery if that rule is not satisfied. But litigants complain that, in practice, the rule is not consistently applied, resulting in lengthy delays. Many states have case law that supports an early identification practice, but often with few useful guideposts concerning the level of specificity that is required or the consequences for noncompliance. Some judges require early identification, but without the type of uniformity litigants hope for. Other jurisdictions and many individual judges decline to apply any trade secret identification rule at all.

What Level of Detail Is Sufficient to Identify a Trade Secret?

How much a claimant needs to reveal to assert claims is open to debate, harming both claimants that want to proceed with discovery to prove up a trade secrets case and defendants who believe they have been unjustifiably accused.

Some courts have held that generic categories of information sufficiently identify the trade secrets at issue.[12] For example, in Aspen Marketing Services Inc. v. Russell, the court held defendant's identification of "general areas of information" alleged to be trade secrets, including "unique, confidential business practices, models and data[,] customer lists ... [and] pricing and marketing strategies" was adequate.[13] Likewise, the plaintiff in Kelly Services v. Eidnes sufficiently identified its trade secrets by pointing to general information on "training methods and needs; [and] recruiting and resourcing details and information."[14]

Other courts have chosen to eschew a clear trade secret identification rule altogether in favor of requirements that are "fact-specific" or determined on a "case-by-case" basis.[15] Such an approach, of course, undermines predictability even within a given jurisdiction and can increase costs and result in delay.

Still others have required plaintiffs to identify their trade secrets with "reasonable particularity."[16] This standard generally focuses on whether (1) the defendant is placed on notice of the claims; (2) the plaintiff and the court are capable of assessing the relevancy of discovery and preventing fishing expeditions; (3) the plaintiff is prevented from crafting the alleged trade secrets based on confidential information learned from the other party; and (4) the court can prevent meritless litigation intended to harass the defendant.[17]

Others apply statutory standards governing trade secret identification. California, for example, has codified the "reasonable particularity" standard in Section 2019.210 of the California Code of Civil Procedure, providing that "before commencing discovery relating to the trade secret, the party alleging the misappropriation shall identify the trade secret with reasonable particularity subject to any [protective] orders."[18] California courts have even gone so far as to describe this statute as "purposefully vague to permit 'play in the joints.'"[19] As a practical matter, this standard has created a gating issue, potentially rewarding defendants' bad behavior by delaying discovery and driving up costs for trade secret plaintiffs who must respond to repeated challenges or prove up their case before discovery begins in earnest.

When Is Identification Required?

There is further confusion around when this identification should occur. Defendants often raise the adequacy of a plaintiff's trade secret identification on a motion to dismiss, as a prerequisite to discovery, or on a motion for summary judgment.[20] In some cases, defendants may repeatedly challenge the plaintiff's identification with a series of motions to compel and protective orders, compounding the delay.[21] And, given the different legal standards applicable to different phases of litigation, case law varies widely in articulating trade secret identification requirements.[22] Indeed, courts frequently fault parties for citing trade secret identification case law inapplicable to a given case's posture,[23] turning early identification into a mini-trial on the format of trade secret identification rather than the validity of the claims.

Does the Current Model Make Sense?

Standardizing trade secret identification is key, but the data reveals a gap between goal and reality. Analytical data of thousands of federal trade secret cases[24] suggest that trade secret identification falls far short of the speed, efficiency and clarity that Congress envisioned — and industry sought — when passing the DTSA for trade secret cases, even in states like California that have codified a statutory standard for doing so. Recent analytics across federal courts show that trade secret cases as a whole took 214 days to grant a permanent injunction, 161 days to reach the motion to dismiss stage, 612 days to reach the summary judgment stage, 808 days to reach trial, and 265 days on average to reach termination. It is not clear what portion, if any, of these time frames can be attributed to the delays surrounding trade secret identification. However, other forms of litigation proceed with greater speed when measured against the same analytics. On average, both patent and commercial litigation cases reached summary judgment and termination far sooner than trade secret cases. This is unsettling given that trade secret cases often involve preliminary relief, after which they may settle.

One thing is clear: There is a more consistent approach to trade secret identification that can be applied across all cases and jurisdictions to ensure swift and efficient adjudication of these trade secret cases while balancing competing interests. But what?

Stay tuned.

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[1] Kristi L. Stathis, Ocean Tomo Releases 2015 Annual Study of Intangible Asset Market Value, OCEAN TOMO INSIGHTS BLOG (Mar. 5, 2015), http://www.oceantomo.com/blog/2015/03-05-ocean-tomo-2015-intangible-asset-market-value/. See also 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, 1067 (2016).

[2] Erin Coe, Is the US Patent System in Trouble? Part I, Law360 (Mar. 23, 2018), https://www.law360.com/articles/1025816/is-the-us-patent-system-in-trouble-part-1-.

[3] 1 Milgrim on Trade Secrets § 1.09 (2018) (explaining that the "kind of information that can be a trade secret is virtually unlimited" subject to certain requirements).

[4] The IP Commission, The Report of the Commission on the Theft of American Intellectual Property 1 (2013), http://www.ipcommission.org/report/IP_Commission_Report_052213.pdf.

[5] Center for Responsible Enterprise and Trade & PwC, Economic Impact of Trade Secret Theft: a Framework for Companies to Safeguard Trade Secrets and Mitigate Potential Threats 7-9 (February 2014), https://create.org/wp-content/uploads/2-14/07/CREATe.org-PwCTrade-Secret-Theft-FINAL-Feb-2014_01.pdf.

[6] H. R. Rep. No. 114-529, at 3 (2016).

[7] Pooley, supra note 1, at 1050-51.

[8] Id.; see also S. Rep. No. 114-220, at 2 (2016).

[9] Defend Trade Secrets Act of 2016: Hearing on S. 1890 Before the S. Comm. on the Judiciary, 114th Cong. 4-5 (2015) (statement of Thomas Beall, Vice President and Chief Intellectual Property Counsel, Corning Inc.) [hereinafter Statement of Thomas Beall]; Defend Trade Secrets Act of 2016: Hearing on S. 1890 Before the S. Comm. on the Judiciary, 114th Cong. 3-5 (2015) (statement of Karen Cochran, Associate General Counsel and Chief Intellectual Property Counsel, E. I. du Pont de Nemours and Company) [hereinafter Statement of Karen Cochran].

[10] H. R. Rep. No. 114-529, at 6 (2016).

[11] Statement of Thomas Beall, supra note 9, at 4-5; Statement of Karen Cochran, supra note 9, at 3-5.

[12] See, e.g., Luvata Electrofin, Inc. v. Metal Processing Int'l, L.P., No. 3:11-CV-00398, 2012 WL 3961226, at *11 (W.D. Ky. Sept. 10, 2012) (holding that plaintiff need only identify "general categories of its trade secrets" rather than "state with particularity every trade secret that was allegedly misappropriated").

[13] Aspen Mktg. Servs., Inc. v. Russell, No. 09 C 2864, 2009 WL 4674061, at *7 (N.D. Ill. Dec. 3, 2009).

[14] Kelly Servs. v. Eidnes, 530 F. Supp. 2d 940, 948 (E.D. Mich. 2008).

[15] A&P Tech., Inc. v. Lariviere, No. 1:17-CV-534, 2017 WL 6606961, at *8 (S.D. Ohio Dec. 27, 2017) ("The divergent rulings from various federal courts on the issue of whether to require prediscovery identification of trade secrets reinforces the idea that rulings on discovery limitations are a case-by-case decision where courts must use their broad discretion based heavily on the distinct circumstances of any particular action."); 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) ("Ultimately, whether a plaintiff has sufficiently disclosed its trade secrets is 'a fact-specific question to be decided on a case-by-case basis.'") (citation omitted); Vesta Corp. v. Amdocs Mgmt. Ltd., 147 F. Supp. 3d 1147, 1155 (D. Or. 2015) (same) (citation omitted).

[16] See, e.g., Kalencom Corp. v. Shulman, No. CV 17-5453, 2018 WL 1806037, at *5 (E.D. La. Apr. 17, 2018); Selectica, Inc. v. Novatus, Inc., No. -ORL-40TBS, 2015 WL 12852957, at *5 (M.D. Fla. Mar. 26, 2015); DeRubeis v. Witten Techs., Inc., 244 F.R.D. 676, 681 (N.D. Ga. 2007).

[17] See, e.g., DeRubeis, 244 F.R.D. at 679-81; Advanced Modular Sputtering, Inc. v. Superior Court, 132 Cal. App. 4th 826, 833-34, 33 Cal. Rptr. 3d 901, 906 (2005).

[18] CAL. CIV. PROC. CODE § 2019.210 (West 2005).

[19] Advanced Modular Sputtering, Inc., 132 Cal. App. at 835, 33 Cal. Rptr. 3d at 907.

[20] Aspen Mktg. Servs., Inc., 2009 WL 4674061, at *7 (challenging plaintiff's trade secret identification on a motion to dismiss); Dow Chem. Canada Inc. v. HRD Corp., 909 F. Supp. 2d 340, 348 (D. Del. 2012), aff'd, 587 F. App'x 741 (3d Cir. 2014) (challenging plaintiff's trade secret identification on summary judgment); A&P Tech., Inc, 2017 WL 6606961, at *7 (challenging plaintiff's trade secret identification via a motion for prediscovery identification of trade secrets); DeRubeis, 244 F.R.D. at 679 (challenging plaintiff's trade secret identification via a motion to compel discovery responses and a motion for a protective order).

[21] See, e.g., Redfin Corp. v. iPayOne.com, LLC, No. C17-001217-RAJ, 2018 WL 1397482, at *2 (W.D. Wash. Mar. 20, 2018) (rejecting defendant's motion to compel plaintiff to further identify trade secrets and motion for a protective order to defer discovery pending adequate identification after defendant previously challenged plaintiff's original and amended trade secret identification).

[22] Cf. Floorgraphics, Inc. v. New Am. Mktg. In-Store Servs., Inc., No. CIV 04-3500 AET, 2006 WL 2846268, at *8 (D.N.J. Sept. 29, 2006), modified on reconsideration sub nom. Floorgraphics, Inc. v. News Am. Mktg. In-Store Servs., Inc., No. CIV.04 3500 AET, 2007 WL 1101445 (D.N.J. Apr. 11, 2007) (explaining that "unless there are heightened pleading requirements as to a particular cause of action, the Federal Rules of Civil Procedure . . . generally do not require a plaintiff to provide specific information about trade secrets at this stage of the litigation."), with Dow Chem. Canada Inc., 909 F. Supp. 2d at 348 (explaining that, on a motion for summary judgment, plaintiff must identify its trade secrets with reasonable specificity in order to "show the existence of a trade secret with [a] 'reasonable degree of precision and specificity . . . such that a reasonable jury could find that plaintiff established each statutory element of a trade secret.'") (citation omitted).

[23] See, e.g., Aspen Mktg. Servs., Inc., 2009 WL 4674061, at *7 ("Defendants incorrectly rely on summary judgment cases to support their motion to dismiss" premised on plaintiff's insufficient trade secret identification); Medtech Prod. Inc. v. Ranir, LLC, 596 F. Supp. 2d 778, 790 (S.D.N.Y. 2008) (noting, on a motion to dismiss, that "the case principally relied on by Defendants for the proposition that specificity [of trade secret identification] is required in the Complaint granted defendants' motion for summary judgment (and not a motion to dismiss)").

[24] LexMachina's trade secret platform provides insight into over 9,600 DTSA and state UTSA trade secret cases in federal court.