

The curious cases of trade secret identification

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In most contentious trade secret disputes — whether under the state law Uniform Trade Secret Act regime or under the newer federal Defend Trade Secrets Act — an early point of disagreement between the parties is the identification (or lack thereof) of a plaintiff's asserted trade secrets.

Plaintiffs seek to identify allegedly stolen trade secrets with just enough specificity to survive an early motion to dismiss and proceed to discovery.

On the other hand, defendants often wish to dismiss a case outright by alleging that the plaintiff has not sufficiently identified the alleged trade secrets at issue.

Lawsuits could be filed merely as “fishing expeditions” to discover information of a competitor.

This issue leads to early tension among the parties and has challenged courts across the country to answer a critical question: *When* must a plaintiff particularly identify its trade secrets?

Unsurprisingly, very little consensus exists but the case law does offer guidance to lawyers on how to prosecute or defend a trade secret case on this issue.

The debate over timing of identification of alleged trade secrets has historically focused on the discovery period, but recent rulings have shifted the focus earlier and litigants should now be prepared to litigate the sufficiency of the plaintiff's identification of its trade secrets *in its complaint*.

Determination of when a plaintiff must identify its trade secrets can lead to harsh outcomes for trade secret plaintiffs and/or defendants.

This article examines and surveys the views of district courts across the country regarding when and how particularly a plaintiff must identify its trade secrets, ways for defendants to attack that identification, and some best practices guidance for both sides.

COMPETING POLICY CONSIDERATIONS

Courts have long-recognized policy considerations regarding the appropriate point in time in a trade secret litigation a plaintiff must identify the asserted trade secrets.

In particular, courts identify at least three arguments that support allowing a trade secret plaintiff to take discovery prior to identifying its alleged trade secrets:

- (1) “a plaintiff's broad right to discovery under the Federal Rules of Civil Procedure”;
- (2) “the trade secret plaintiff, particularly if it is a company that has hundreds or thousands of trade secrets, may have no way of knowing what trade secrets have been misappropriated until it receives discovery on how the defendant is operating”;² and
- (3) a plaintiff that is required to identify the trade secrets at issue without knowing which of those secrets have been misappropriated is placed in somewhat of a “Catch-22” in that “[s]atisfying the requirement of detailed disclosure of the trade secrets without knowledge [of] what the defendant is doing can be very difficult” because “if the list is too general, it will encompass material that the defendant will be able to show cannot be trade secret, [and] [i]f instead it is too specific, it may miss what the defendant is doing.”³

On the other side, courts also consider whether delaying discovery until the trade secret plaintiff has sufficiently described the trade secrets at issue is more appropriate.

For example, in the absence of a sufficient early identification, lawsuits could be filed merely as “fishing expeditions” to discover information of a competitor.

Requiring identification prior to discovery also helps the court determine whether the information sought is relevant, allows the defendant to mount a defense, and ensures that the plaintiff will not mold its cause of action around the discovery it receives.

Courts must ultimately balance these competing considerations when determining when the plaintiff is required to identify its trade secrets.

IDENTIFICATION OF TRADE SECRETS IN THE COMPLAINT

It is generally accepted that trade secrets do not need to be disclosed in detail in a complaint for the obvious reason that such a requirement would result in a public disclosure of a purported trade secret, destroying the trade secret itself.⁴

However, courts often find that the pleading requirements set forth in *Twombly*⁵ and *Iqbal*⁶ require a plaintiff to do more than simply identify general categories of information such as “confidential information” or “technical data” without further explanation as to the nature of the trade secrets (*e.g.*, technical information relating to a particular technology, technical specifications relating to a manufacturing method, compilations of customer data, etc.).

As one court put it, to survive a motion to dismiss under Federal Rule of Civil Procedure 12(b)(6), a plaintiff must identify the purported trade secrets with sufficient particularity to “permit the defendant to ascertain at least the boundaries within which the secret lies” and “provide reasonable guidance in ascertaining the scope of appropriate discovery.”⁷

Application of the *Twombly* and *Iqbal* standard reveals mixed results for trade secret plaintiffs but does emphasize the importance of well-pled factual allegations relating to misappropriation.

Defendants can quickly move to dismiss a complaint if the plaintiff’s description is too nebulous or generic with respect to the alleged trade secrets at issue.

For example, in resolving a motion to dismiss in *PDC Machines*⁸, the U.S. District Court in the Eastern District of Pennsylvania noted that although the plaintiff did not specifically identify which secrets were used by the defendants for its competing product, the factual allegations regarding the defendants’ actions provided a sufficient basis to plausibly allege misappropriation, and the specific trade secret information used to accomplish the alleged misappropriation would be gained during discovery and did not need to be plead in more specificity.

In contrast, a recent decision by a Delaware District Court in *You Map Inc. v. Snap Inc. et al.* reached the opposite conclusion.⁹

There, the complaint listed various “technologies” that were allegedly misappropriated relating to the plaintiff’s mobile application, including “technologies” to display information in certain ways to the user (along with screenshots of its user interface), but did not define “technology.”

In its opposition to defendant’s motion to dismiss, the plaintiff argued that its trade secrets were the *underlying* “technologies” and that the screenshots were disclosed only to provide a surface-level glimpse of the user interface.

The court soundly rejected this argument, holding that the plaintiff “must adequately identify the trade secrets in the *Complaint*.”¹⁰

The court then held that the plaintiff’s failure to adequately identify the trade secrets rendered the court unable to determine if the complaint plausibly alleged misappropriation.

Thus, while *PDC Machines* and similar rulings suggest that strong factual allegations related to misappropriation can outweigh a lack of specific detail regarding the asserted trade secrets, *You Map* is an important reminder that this may not always be the case.

Given these conflicting rulings, there are practical lessons here for lawyers on both sides.

Plaintiffs should focus on pleading the allegedly misappropriated trade secrets beyond broad categories and in a manner to sufficiently put the defendant (and the court) on notice regarding exactly what information or documents are at issue.

But plaintiffs need to remember to do so in a manner that also ensures proper discussion of the factual allegations with respect to the alleged misappropriation itself. Defendants on the other hand should closely scrutinize a complaint for adequate disclosure of the alleged trade secrets at issue.

And, in an early attack on a case, defendants can quickly move to dismiss a complaint if the plaintiff’s description is too nebulous or generic with respect to the alleged trade secrets at issue.

PRE-DISCOVERY TRADE SECRET IDENTIFICATION

If a trade secret plaintiff survives the pleading stage (either after defeating a motion to dismiss, after an injunction hearing, or otherwise), the parties typically have another battle over trade secret identification at the discovery stage.

And at this point, the outcome of that fight depends on the jurisdiction where the case is filed. If a plaintiff brings a trade secret case in Massachusetts and California, those states have taken this issue out of the hands of judges.

Indeed, those states have enacted statutes requiring identification of one’s trade secrets with reasonable or sufficient particularity *prior* to the commencement of discovery.¹¹

In other words, a plaintiff cannot even seek discovery until it satisfactorily identifies the trade secrets at issue. This both forces plaintiffs to put in work early on honing their claims as well as provides defendants the availability of staving off expensive discovery until the claims at issue are crystalized.

All other states (with the slight exception of New York which has not adopted the UTSA and handles these issues piecemeal) leave the issue to the courts, allowing them to address the issue on a case-by-case basis, often resulting in divergent rulings from various federal courts, even within the same District.

Often times defendants seek to utilize the holdings from California and Massachusetts in an effort to avoid discovery.¹²

These efforts have gained traction recently with several district courts recognizing a “growing consensus” in favor of requiring plaintiffs bringing claims of trade secret misappropriation to identify, with reasonable particularity, the alleged trade secrets at issue prior to the commencement of discovery.¹³

However, while requiring pre-discovery identification seems to be a growing trend, a mandate has not arisen.

Indeed, federal district courts in Arizona, Texas, Nevada, Oregon and Utah, have expressly rejected the notion of required pre-discovery identification, and instead, allowed discovery to proceed after weighing the interests of the plaintiffs and defendants in light of the particular facts of that case.¹⁴

One of the first tactical considerations for every trade secret defendant should be to closely analyze the alleged trade secrets at issue.

As one court noted, because trade secret litigation is “complex, contentious, and fact-intensive, ... a mandate may long elude us. And perhaps it should.”¹⁵

Other courts emphasize the importance of considering this issue in light of the particular facts of the case, one court noting that the divergent rulings from district courts “reinforces the idea that rulings on discovery limitations are a case-by-case decision where courts use their broad discretion based heavily on the distinct circumstances of any particular action.”¹⁶

Thus, in reaching a decision on this issue, many courts have allowed discovery to proceed after balancing the competing interests of the parties in light of the particular facts of the case.¹⁷

All of this is important to consider by potential trade secret plaintiffs when they are choosing where to file a case. And for defendants, they and their counsel should strongly consider whether transfer is an option and what the law of the particular district is as they formulate their defense strategies.

AMENDING TRADE SECRET IDENTIFICATION

In addition to the potential requirement that trade secret plaintiffs may be required to identify their trade secrets with heightened particularity at an early stage in the litigation, many courts do permit trade secret plaintiffs to amend or supplement their trade secret disclosures based on information gained through discovery.

This most often requires a showing of good cause.¹⁸

In determining whether to allow a plaintiff to amend its trade secret identification, courts typically base their decision on factors such as the diligence of the moving party, prejudice to the opposing party, whether the proposed amendments are based on newly-learned facts, the stage of the litigation, and any potential delay caused by the amendment.

One way to ensure the benefit of the opportunity to amend a trade secret identification is to build deadlines for trade secret disclosures into the scheduling order.

Providing multiple dates for trade secret identifications, including a date for final trade secret identification, can benefit both plaintiffs and defendants by providing a defendant with early notice as to the allegations against it while at the same time minimizing the risk that the plaintiff’s early identification was overly general or too specific.

Parties pursuing this route should be aware of how the schedule lines up with discovery in order to prevent gamesmanship such as large productions of documents after the date for final identification.

Thus, while identifying trade secrets at an early stage in the litigation may seem daunting to trade secret litigants, parties should be aware of the option to amend and be prepared to act quickly when the need to amend arises.

TAKEAWAYS

For the Plaintiff: When and how the particularized identification of one’s alleged trade secrets should be a closely evaluated decision by any putative plaintiff. This calculus should occur *before* a lawsuit is initiated as the venue and jurisdiction matters.

Once that decision is made, the plaintiff should plan and plot its early case strategy in serious detail to anticipate and navigate the challenges that lie ahead.

For the Defendant: One of the first tactical considerations for every trade secret defendant should be to closely analyze the alleged trade secrets at issue.

The defendant should consider whether to attempt to change venue, move for early dismissal, file a motion for more definitive statement, or lie in wait, and make a motion to stay and oppose discovery.

Regardless of what side of the aisle one sits, the identification of one’s trade secrets (or lack thereof) should continue to be a hotly contested issue in trade secrets cases moving forward.

Notes

¹ *Par Pharm. Inc. v. QuVa Pharma Inc.*, No. 17-cv-6115 (BRM), 2019 WL 959700, at *2 (D.N.J. Feb. 27, 2019).

² *Id.*

³ *Id.*, citing Lynn H. Pasahow, Patent and Trade Secret Biotechnology Litigation, 1993 BIOTECHNOLOGY: BUSINESS, LAW, AND REGULATION 37, 52 (ALI-ABA Course Study Materials).

⁴ Although a complaint can be filed under seal, this practice is largely disfavored due to the public's right to access litigation dockets. Thus, the classic debate as to whether pre-discovery identification is required typically occurs after a protective order is in place.

⁵ *Bell Atlantic Corp. v. Twombly*, 550 U.S. 544 (2007).

⁶ *Ashcroft v. Iqbal*, 556 U.S. 662 (2009).

⁷ *Jun-En Enter. v. Lin*, No. 12-cv-2734, 2013 WL 12126115, at *2 (C.D. Cal. June 17, 2013); *but see Mission Measurement Corp. v. Blackbaud Inc.*, 216 F. Supp. 3d 915, 920–21 (N.D. Ill. 2016) (“At the pleading stage, plaintiffs need only describe the information and efforts to maintain the confidentiality of the information in general terms.”).

⁸ *PDC Machines Inc. v. Nel Hydrogen A/S*, No. 17-cv-5399, 2018 WL 3008531 (E.D. Pa. June 15, 2018).

⁹ *You Map Inc. v. Snap Inc.*, No. 20-cv-162, 2021 WL 106498 (D. Del. Jan. 12, 2021), *report and recommendation adopted*, No. 20-cv-162, 2021 WL 327388 (D. Del. Feb. 1, 2021).

¹⁰ *Id.* at *7 (emphasis in original).

¹¹ Mass. Gen. Laws Ann. ch. 93 § 42D(b); Cal. Code Civ. Proc. § 2019.210.

¹² *See, e.g., Structural Pres. Sys. LLC v. Andrews*, No. 12-cv-1850, 2014 WL 12738910, at *2 (D. Md. Mar. 26, 2014) (rejecting that Cal. Code Civ. Proc. § 2019.210 applies to a trade secret dispute before the U.S. District Court for the District of Maryland).

¹³ *Ruby Slipper Cafe, LLC v. Belou*, No. 18-1548, 2020 WL 4905796, at *6 (E.D. La. Jan. 15, 2020); *Coda Dev. S.R.O v. Goodyear Tire & Rubber Co.*, No. 5:15-CV-1572, 2019 WL 6219745, at *4 (N.D. Ohio Nov. 21, 2019); *Vesta Corp. v. Amdocs Mgmt. Ltd.*, 147 F. Supp. 3d 1147, 1153 (D. Or. 2015).

¹⁴ *See, e.g., DIRT Env'tl. Sols. Inc. v. Henderson*, No. 19-cv-144, 2021 WL 247895, at *3 (D. Utah Jan. 25, 2021) (“The court disagrees that [*StoneEagle Servs. Inc. v. Valentine*, No. 12-cv-1687, 2013 WL 9554563, at *2, 4 (N.D. Tex. June 5, 2013)] stands for the proposition that discovery should not begin until trade secrets are identified with reasonable particularity.”); *Accresa Health LLC v. Hint Health Inc.*, No. 18-cv-536, 2018 WL 6626551, at *9 (E.D. Tex. Nov. 28, 2018), *report and recommendation adopted*, No. 18-cv-536, 2018 WL 6617707 (E.D. Tex. Dec. 18, 2018) (“Neither Texas nor federal law requires pre-discovery identification of trade secrets.”); *See, e.g., St. Jude Med. S.C. Inc. v. Janssen-Counotte*, 305 F.R.D. 630, 641 (D. Or. 2015) (“Applying these considerations here, [plaintiff] need not identify its trade secrets at issue with any greater particularity before it may take discovery from [third party].[.]”); *Montgomery v. eTreppid Techs. LLC*, No. 06-cv-56 (VPC), 2008 WL 2277118, at *10–11 (D. Nev. May 29, 2008) (permitting defendant to take discovery on its trade secret counterclaim against plaintiff without first specifically identifying its own trade secrets at issue); *BioD LLC v. Amnio Tech. LLC*, No. 13-cv-1670, 2014 WL 3864658, at *1 (D. Ariz. Aug. 6, 2014).

¹⁵ *JJ Plank Co. LLC v. Bowman*, No. 18-cv-798, 2018 WL 3545319, at *3 (W.D. La. July 23, 2018).

¹⁶ *A&P Tech. Inc. v. Lariviere*, No. 17-cv-534, 2017 WL 6606961, at *8 (S.D. Ohio Dec. 27, 2017).

¹⁷ *Supra* note 1, *Par Pharm.*, 2019 WL 959700, at *3.

¹⁸ *See, e.g., Morgardshammar Inc. v. Dynamic Mill Servs. Corp.*, No. 09-cv-379, 2009 WL 10685154, at *3 (W.D.N.C. Nov. 19, 2009) (“If subsequent discovery reveals additional trade secrets that may have been misappropriated, Plaintiff may amend the list to identify them.”); *Powerweb Energy Inc. v. Hubbell Lighting Inc.*, No. 12-cv-220 (WWE), 2012 WL 3113162, at *2 (D. Conn. July 31, 2012) (allowing the plaintiff to amend or supplement its list of trade secrets upon a showing of good cause).

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