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### TRADE SECRETS

# Benefits of Early Discovery in Defending Trade Secret Misappropriation Claims

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Suppose that you are general counsel of a sophisticated business—a software, biotechnology, or manufacturing company. One day, you find out that a lawsuit has been filed accusing your company of misappropriating the trade secrets of another firm. The complaint makes sweeping allegations that your company misappropriated the trade secrets behind the plaintiff’s “revolutionary” and “unique” products and incorporated them into one of your company’s core products. Plaintiff immediately seeks broad discovery of your company’s proprietary information stretching back years, and asks you to provide your most sensitive product development information to plaintiff’s experts for a comparative “analysis.” You prepare to turn over reams of documents and to hire your own experts to conduct a dueling analysis.

Not so fast. This scenario may well be one where defense counsel can seize the initiative, turning the tables on the plaintiff by seeking early discovery of its own. The danger here is that plaintiff will root around in your company’s product files and miraculously “find” something that it alleges was taken. Liberal pleading rules and similarities across competing products make it easy for plaintiffs to launch fishing expeditions based on superficial allegations and with little or no evidence of misappropriation. Unless this bootstrapping is stopped in its tracks, your company may be in for a long period of expensive discovery, a battle of the experts, and a complicated trial.

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### Push for Early Specification

Fortunately, courts recognize that trade secret misappropriation cases present a special risk to defendants like the company described in the introduction. Extensive case law (and at least one state statute) allow defendants to seek a protective order requiring plaintiffs to provide a detailed and specific disclosure of its allegedly stolen trade secrets before plaintiff takes any discovery. Obtaining such a protective order is likely to be one of the first—and most important—moves in defense of any trade secret claim.

While every case presents unique considerations, a trade secret defendant is likely to have good arguments for a such a protective order. There is “general agreement” amongst courts “that it is appropriate to require a trade secret owner to state its claimed trade secrets before it engages in discovery from the defendant about the defendant’s use of the trade secrets.”<sup>1</sup> Generally, courts have discretion to issue orders limiting the scope or specifying the terms of discovery,<sup>2</sup> including the power to stay any discovery by plaintiff until it particularizes its trade secret claims.<sup>3</sup> In California, this disclosure is now mandated by statute.<sup>4</sup>

There are four principal reasons defense counsel can give a court to support the entry of an order requiring a trade secret disclosure by plaintiff as a condition to any discovery.

First, requiring early and specific disclosure of the plaintiff’s claimed trade secrets helps weed out meritless, speculative claims by ensuring that a plaintiff will not mold its cause of action around the discovery it receives from the defendant.<sup>5</sup> Courts recognize the serious risk that trade secret plaintiffs, under the guise of a generalized claim of misappropriation, will first obtain discovery of a defendant’s sensitive information, then miraculously claim what is found there to be plaintiff’s own intellectual property.<sup>6</sup> Requiring a plaintiff to be specific about what it owns prior to obtaining discovery “freezes” plaintiff’s claims and avoids placing defendant in a position where it must attempt to explain away chance similari-



ties between the parties’ processes or methods, by expensive expert testimony or otherwise.<sup>7</sup>

Second, early disclosure of the plaintiff’s claimed trade secrets provides a basis for determining the relevancy of the discovery sought by the plaintiff.<sup>8</sup> Though a plaintiff may well hope for broad discovery of a defendant’s files, a specific trade secret disclosure may provide the defendant and the court with a basis to confine discovery to areas actually relevant to what the plaintiff claims to own.<sup>9</sup> Thus, a protective order may halt or limit invasive and expensive discovery of your company’s proprietary information.

Third, a specific trade secret disclosure permits a defendant to mount a defense based on specific, not general allegations.<sup>10</sup> Without a clear statement of what plaintiff claims to be its trade secrets, a defendant is unlikely to be able to:

- Determine whether the plaintiff took the reasonable steps required to safeguard its claimed secrets;
- Establish that the allegedly “secret” information is in fact publicly available;
- Show that its product was developed differently and independently from the plaintiff’s; or

- Show that it acquired the information plaintiff claims was misappropriated by legitimate means.

Put simply, one goal of an early trade secret disclosure is to give the defendant a fair opportunity to show “that those asserted trade secrets are either not secrets or not used by” the defendant.<sup>11</sup>

Fourth, early disclosure of the plaintiff’s alleged trade secrets prevents abuse of the discovery process for competitive advantage.<sup>12</sup> Courts recognize that trade secret litigants are often in a competitive market posture, and that a defendant may suffer devastating injury if forced to disclose its own trade secrets in response to a meritless claim. For example, in one misappropriation case between two competitors, the court recognized that “discovery of the defendant’s processes, research and production...may result in irreparable injury to it if eventually plaintiff does not prevail on his claim” because defendant’s own secrets would be placed in the hands of its competitor.<sup>13</sup>

#### Take an Early Deposition

Depending on the circumstances, defense counsel should also consider noticing the deposition of a corporate representative of the plaintiff early in the case for testimony regarding the details of the plaintiff’s misappropriation claims.<sup>14</sup> Live witness testimony will likely be more beneficial than obtaining a written disclosure, which will almost certainly be heavily lawyered by plaintiff’s counsel. Ideally, any protective order obtained from the court would condition discovery from your company on submission of the sworn disclosure and the deposition.

#### Sanctions, Adverse Inferences

Even after obtaining the sworn disclosure and deposition testimony, you should stay on offense. The plaintiff may provide overbroad descriptions and resist providing meaningful detail about its trade secrets in an effort to avoid being pinned down. Consider then whether plaintiff’s disclosures “describe the subject matter of the trade secret with sufficient particularity to separate it from matters of general knowledge in the trade or of special knowledge of those persons who are skilled in the trade, and to permit the defendant to ascertain at least the boundaries within which the secret lies.”<sup>15</sup>

If the plaintiff’s trade secret disclosure is inadequate in any respect, defense counsel may be well served by pressing the issue, by a motion to compel or otherwise. Failure to provide an adequate disclosure may justify maintaining the stay of discovery of the defendant. And where plaintiffs are ordered by the court to describe their trade secrets with particularity, but provide only vague and general descriptions of their products and their functions, sanctions against the plaintiff may be warranted. The failure to provide a sufficiently particularized trade secret disclosure may also be grounds for drawing adverse inferences in

later fact-finding by the court, and may help defeat requests for injunctive or other relief by the vplaintiff.<sup>16</sup>

#### Other Aspects of Defense

Even if you elect not to pursue the issue of trade secret disclosure further, obtaining early discovery from the plaintiff may open other promising avenues for your defense of the case. For example:

(1) Does the disclosure reveal that the plaintiff’s claimed “trade secrets” are truly novel, or do they appear instead as undifferentiated from what is widely known in the industry? To qualify as a trade secret under the Uniform Trade Secrets Act, which has been adopted by more than 40 states in one form or another, the plaintiff’s alleged trade secret must, among other things, derive economic value from not being generally known.<sup>17</sup>

(2) Has plaintiff treated its claimed intellectual property as confidential, or does it appear that the information deemed “secret” has been disclosed indiscriminately or without adequate protections? Evidence revealing that the plaintiff previously failed to protect its alleged secrets may also invite judgment against it.

Requiring a plaintiff to be specific about what it owns prior to obtaining discovery “freezes” plaintiff’s claims and avoids placing defendant in a position where it must attempt to explain away chance similarities between the parties’ processes or methods, by expensive expert testimony or otherwise.

(3) Has plaintiff filed its lawsuit outside the statute of limitations period? Under the Uniform Trade Secrets Act, a plaintiff must file suit within three years of the date it discovers, or by exercise of reasonable diligence should have discovered, the alleged misappropriation.<sup>18</sup> A claim based on multiple acts of misappropriation is treated as a single claim for purposes of the three-year statute of limitations.<sup>19</sup> As a practical matter, that means that the statute likely starts running on the date plaintiff had notice of the earliest act of alleged misappropriation, not the last, and thus all its misappropriation claims may be time-barred if the date of first notice is outside the statute of limitations.<sup>20</sup>

(4) Finally, defense counsel should consider whether the plaintiff has any reasonable basis for believing that your company misappropriated trade secrets as claimed. If a plaintiff’s claims are revealed to be meritless, the Uniform Trade Secrets Act and the rules of civil procedure allow a defendant to seek sanctions, including costs and attorney fees, for trade secret actions brought in bad faith or without substantial justification.<sup>21</sup> Acquiring material for a sanctions motion early

on in litigation can drastically shift the balance of power in a defendant’s favor.

#### It Pays to Go on the Offensive

Where appropriate, going on the offense in the opening phase of a trade secrets case can both ease your company’s discovery burden and help your company prevail by putting the plaintiff’s case to the test early in the litigation process.

1. Kevin R. Casey, “Identification of Trade Secrets During Discovery: Timing and Specificity,” 24 AIPLA Q.J. 191, 210 (1996); see also R. MILGRIM, 4 TRADE SECRETS §16.01[5] (1997) (“a plaintiff can reasonably anticipate that the defendant will insist that it be apprised of considerable detail describing the trade secret,” and this “insistence can reasonably be expected to precede the defendant’s submitting to discovery of it”).

2. See FED. R. CIV. P. 26(c)(1). The rules of some states may contain language that expressly contemplates conditional discovery. For example, in Maryland, the court may grant a protective order requiring “discovery not be had until other designated discovery has been completed... or some other event or proceeding has occurred[.]” MD. RULE 2-403(a)(2).

3. See, e.g., *Del Monte Fresh Produce v. Dole Food*, 148 F.Supp.2d 1322 (S.D. Fla. 2001); *Leucadia v. Applied Extrusion Techs.*, 755 F.Supp. 635, 637 (D. Del. 1991); *Hill v. Best Med. Int’l*, No. 09-1194, 2010 WL 2546023, at \*4 (W.D. Pa. June 24, 2010); *StorageCraft Tech. v. Symantec*, No. 2:07-CV-856 CW, 2009 WL 112434, at \*2 (D. Utah Jan. 16, 2009); *Xerox v. Int’l Bus. Machs.*, 64 F.R.D. 367, 371 (S.D.N.Y. 1974); *Porous Media v. Midland Brake*, 187 F.R.D. 598, 600 (D. Minn. 1999).

4. See Cal. Civ. Proc. Code §2019.210 (West 2005) (“In any action alleging the misappropriation of a trade secret under the Uniform Trade Secrets Act..., before commencing discovery relating to the trade secret, the party alleging the misappropriation shall identify the trade secret with reasonable particularity...”). This statute represents the codification of a requirement that arose in case law several decades ago. See *Diodes v. Franzen*, 260 Cal. App. 2d 244, 253 (1968).

5. See generally Jerome Doyle and Allen S. Joslyn, “The Role of Counsel in Litigation Involving Technologically Complex Trade Secrets,” 6 B.C. L. REV. 743, 747 (1965) (“If plaintiff is not forced to define his alleged disclosures before he gets into defendant’s files, he may simply claim whatever he finds there.”).

6. See, e.g., *Computer Econ. v. Gartner Group*, 50 F.Supp.2d 980, 985 (S.D. Cal. 1999) (early trade secret disclosure “dissuades the filing of meritless trade secret complaints”).

7. See Casey, “Identification of Trade Secrets,” 24 AIPLA Q.J. at 210-11 (1996).

8. See *Computer Econ.*, 50 F.Supp.2d at 985 (pre-discovery disclosure by plaintiff “assists the court in framing the appropriate scope of discovery and in determining whether plaintiff’s discovery requests fall within that scope”).

9. See, e.g., *Xerox v. International Business Machines*, 64 F.R.D. 367, 371 (S.D.N.Y. 1974) (without trade secret disclosure neither defendant nor the court could “know, with any degree of certainty, whether discovery is relevant or not”).

10. See MILGRIM, 4 TRADE SECRETS §16.01[5][b] (1997) (defendant cannot formulate an effective defense to allegations of trade secret misappropriation unless it is provided “with clear detail of what the plaintiff claims to be its trade secret”).

11. *Litton Sys. v. Sundstrand*, 750 F.2d 952, 954 (Fed. Cir. 1984).

12. See *DeRubeis v. Witten Techs.*, 244 F.R.D. 676, 680 (N.D. Ga. 2007); see also *AutoMed Techs. v. Eller*, 160 F.Supp.2d 915, 926 (N.D. Ill. 2001) (requiring plaintiff to disclose its trade secrets in advance of discovery of the defendant because a court “will not permit [a] plaintiff to go on a fishing expedition through [a defendant’s] files”).

13. *Roy v. Allied Chemical*, 34 F.R.D. 456, 457 (S.D.N.Y. 1964).

14. See FED. R. CIV. P. 30(b)(6) and state analogues.

15. See *Diodes*, 260 Cal. App. 2d at 253.

16. See, e.g., *Litton Sys.*, 750 F.2d at 958 (where plaintiff sought a preliminary injunction prohibiting defendant’s use of its “trade secrets,” district court was at liberty to draw adverse inferences against a plaintiff who described only the general “areas” of its thousands of claimed trade secrets with no specific detail, and instead to credit the defendant’s showing that it would likely prove at trial that the alleged trade secrets were actually public knowledge).

17. See UNIFORM TRADE SECRETS ACT, National Conference of Commissioners on Uniform State Laws (1985), available at [http://www.uniformlaws.org/Act.aspx?title=Trade Secrets Act](http://www.uniformlaws.org/Act.aspx?title=Trade%20Secrets).

18. UNIFORM TRADE SECRETS ACT §VI.

19. *Id.*

20. See, e.g., *Gognat v. Ellsworth*, 259 P.3d 497, 501 (Colo. 2011); *Intermedics v. Ventritex*, 822 F.Supp. 634, 656-57 (N.D. Cal. 1993). In jurisdictions that have adopted the Uniform Trade Secrets Act, where a plaintiff alleges that alleged acts of misappropriation also constitute other torts (for example, conversion), disposing of counts alleging misappropriation of trade secrets may have the effect of sweeping away other counts premised on the same conduct. This is because the Uniform Trade Secrets Act is intended to be the exclusive remedy for misappropriation, essentially preempting tort claims. See UNIFORM TRADE SECRETS ACT §VII(a).

21. UNIFORM TRADE SECRETS ACT §IV; see also FED. R. CIV. P. 11, and state analogues.