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Trade Secrets and Protecting High Technology Markets: Substantive and Discovery Issues

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TRADE SECRETS AND PROTECTING HIGH TECHNOLOGY MARKETS: SUBSTANTIVE AND DISCOVERY ISSUES

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I. WHAT IS A TRADE SECRET?

A. Restatement of Torts* Definition:

The Restatement of Torts provides the following useful and widely accepted definition of a trade secret.

> "A trade secret may consist of any formula, pattern, device or compilation of information which is used in one*s business, and which gives *him* an opportunity to obtain an advantage over competitors who did not know or use it. It may be a formula for a chemical compound, a process of manufacturing, treating or preserving materials, a pattern for a machine or other device, or a list of customers." Restatement of Torts 1 757 comment b.

B. Examples of Potential Trade Secrets:

Trade secrets can encompass a wide variety of business information, including:

1. Chemical formulas
2. Product formulas, e.g. Coca Cola
3. Products compositions
4. A special machine
5. A computer program
6. Manufacturing processes
7. Customer lists
8. Specific customer needs
9. Marketing strategies
10. Business strategies
11. Sales strategies
12. Financial information
    a. Profit margins
    b. Sales volumes
    c. Costs

By no means should this list be considered comprehensive. Essentially, most confidential information concerning a business*s activities, products, and finances, may constitute a trade secret.

C. General Factors Indicative of a Trade Secret:

Rather than attempt to identify all types of information that could qualify as a trade secret, the Restatement of Torts and many courts employ a six factor analysis to determine whether the confidential information at issue actually constitutes a trade secret under the law. The following factors are guidelines and not criteria:

1. The extent to which. the information is known outside of the business;

2. The extent to which it is known by employees and others involved in the business;

3. The extent of measures taken by the company to guard the secrecy of the information;

4. The value of the information to the company and its competitors;

5. The amount of effort or money expended by the company in developing the information; and

6. The case or difficulty with which the information could be properly acquired or duplicated by others.
   Restatement of Torts. Comment b.

D. What Is Generally Not a Trade Secret?

The following information is typically not a trade secret:

1. Publicly available information

2. General skills and knowledge of an employee

3. Information disclosed in patents

   a. Because patent law requires full and complete disclosure of the invention, typically, information found in a patent cannot constitute a trade secret.

   b. Note that information not revealed in the patent concerning the patented invention, including marketing, sales, and business strategy information, may still constitute a trade secret.

II. PRIMA FACIE ELEMENTS OF A CLAIM FOR MISAPPROPRIATION

A. What Must Be Established to Make a Prima Fade Case for the Misappropriation of a Trade Secret?

1. A trade secret existed;

2. The defendant acquired the secret as a result of a confidential relationship?

3. The defendant used the secret information for his own benefit or disclosed it to others without consent?

4. This unauthorized use caused damages.

B. Generally, the most disputed elements of a claim are whether (1) a trade secret existed and (2) whether the defendant used the secret.

III. DISCOVERY ISSUES

A. What Are the Trade Secrets at Issue?

The broad definition of a trade secret invites plaintiffs to allege a large wide variety of confidential information to be a trade secret. Discovery must focus on narrowing the confidential information actually at issue and then focusing on whether this information, in fact, constitutes a trade secret.

1. Narrowing the trade secrets at issue

   Failing to identify the trade secrets at issue will frustrate defenses. For example, customer information, a commonly alleged trade secret, may consist of the name and address of customers, their buying habits, revenue earned from each customer, the customer contact, the price paid by the particular customer, etc. Allowing plaintiffs to assert generally that customer information is the trade secret at issue gives plaintiffs freedom to change their trade secret case mid-stream if their original theory proves fruitless, i.e. it is later discovered that customer names and addresses are publicly known. Moreover, a court will experience great difficulty determining whether the information constitutes a trade secret when the information at issue is abstruse or vague.

2. Focusing on the Restatement Factors

The six factor trade secret analysis of the Restatement of Torts will provide a significant focal point for discovery. One must discover how well known the confidential information is to appreciate its significance as a trade secret. One must know the investment in time and effort to develop this information. One must know the value of the information to competitors as well. In addition, one must know the extent of efforts to secure the information. Discovery of this information may dictate the theory of the case and its defense.

B. Has the Defendant Misappropriated the Trade Secret?

Because of the fact intensive nature of discovery concerning the foregoing trade secret factors, in motions for summary judgment, defendants may wish to focus courts on other prima fade elements of a trade secret claim.

Showing an actual misappropriation of a trade secret may prove onerous.

1. Physical Misappropriation

A physical theft of documents, disks, schematics, plans or specifications dearly demonstrates a misappropriation. In many instances, however, such physical evidence may often be destroyed by the offending party.

2. Loss of Key Employees

In addition, the departure of key employees io a competitor may help show that a trade secret has been misappropriated. These same employees, however, may claim that they are only taking their general skills and knowledge to the competitor and not employing any trade secret information.

3. Revealing Patterns or Similarities

Patterns or similarities in data and information may also corroborate the misappropriation of a trade secret. Obviously, if software code of a competitor resembles the software of the plaintiff, this evidence can demonstrate a misappropriation. Some clever clients have even “branded” their key data by placing patterns or identifying characteristics in it.

In particular, one client placed a few dummy customers on its customer list. When the offending party sent a general mailer to all of these customers, the plaintiff received a copy of the mailer because the address of the dummy customer was actually one of its p.o. boxes.

More than likely, it will be the circumstances as a whole that will show whether the a trade secret has been taken:

1. A competitor hires your chief designer and then shortly after develops a product it would take years to develop.

2. A former employee starts his own company and begins to make, market, and sell the exact products developed by your client.

C. Some Overall Discovery Perspectives

1. Depositions - when and in what order?

2. The TRO and Preliminary Injunction "Gauntlet" - Rules & Tactics.

IV. ALTERNATIVES TO TRADE SECRET CLAIMS

Even if one cannot meet the legal standards for the tort of misappropriation of trade secrets, there are other alternative theories to consider.

A. Unjust Enrichment

1. This claim assumes that the competitor actually received the benefit of the confidential information.

2. However, one need not demonstrate evidence supporting the six factor analysis of the Restatement of Torts.

B. Breach of Contract

C. Breach of Fiduciary Duties

1. Who has a fiduciary duty?

   a. Corporate officers and directors

   b. Partners

   c. Joint-Venture Partners

2. One must show that the misappropriation of the confidential information occurred when the fiduciary duty existed.

D. Tortious Interference with Contract or Business Relationship