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Particularity And Preemption Trends In Trade Secret Cases

Law360, New York (May 27, 2016, 10:56 AM ET) -- In trade secrets cases, hotly contested issues often arise concerning whether the plaintiff has alleged its trade secrets claim with sufficient specificity, and whether any related claims are preempted under an applicable state Uniform Trade Secrets Act. Early in a trade secrets case, these disputes can profoundly impact case strategy. This article discusses battleground particularity and preemption issues, and important factors in such disputes.



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The "Reasonable Particularity" Two-Step Dance

When developing a strategy in a trade secrets case, it is useful to anticipate the multistage analysis that may occur with respect to "reasonable particularity." Courts first may address particularity when deciding whether allegations in a complaint are specific enough to state a claim for misappropriation of trade secrets. Courts may also address particularity later, during discovery, when deciding whether a defendant should have to produce its confidential and proprietary information to the plaintiff.

"Reasonable Particularity" When Alleging Trade Secret Misappropriation

Defendants often argue that a trade secrets complaint lacks the specificity necessary to state a cause of action. Defendants may contend that a complaint fails to identify the alleged trade secrets with sufficient specificity, and may also argue that the complaint lacks sufficient allegations concerning how any secrets were purportedly misappropriated. A plaintiff is required to allege a plausible claim, taking into account any need to avoid prejudice.[1]

Generally, whether information constitutes a "trade secret" under applicable law is a question of fact. Nonetheless, merely referencing overly broad categories of information or generic descriptions may fail to state a UTSA claim.[2] The unique facts and circumstances of each case will dictate that outcome of a given dispute regarding particularity. While it is not feasible to draw precise boundaries for all cases, recent cases appear to provide some general guideposts.

One federal court has noted, for example, that complaints in "reasonable particularity" disputes often fall into one of two general categories.[3] The first category involves broad-brush complaints that do not identify any particular product, service, or other specific aspect or subset of the plaintiff's business with respect to the alleged trade secrets. In that

scenario, courts may determine that the allegations fail to state a claim for trade secret misappropriation.[4] In the other category, trade secrets complaints may provide information sufficient to identify the secrets at issue by including relevant context details concerning the trade secrets. Courts may deem a claim properly alleged, for example, when it provides sufficiently specific context concerning relevant "products, service[s], lines, or other subsets of the plaintiff's business." [5]

A court determined that a complaint sufficiently described the trade secrets at issue, for example, by alleging that the secret information related to a specific contract and business relationship between the parties.[6] Similarly, another court distinguished cases dismissing trade secrets complaints with purely generic descriptions, such as "drawings, process, specifications, procurement specification, and other technical knowhow." [7] In that case, the complaint did not merely reference "drawings" but alleged "detailed architectural drawings and ... diagrams that depicted on a step-by-step basis" how to design and implement the plaintiff's payment solution to capture business with its customer.[8] Thus, focusing on a particular product, service, event, or other contextual facts at the core of the alleged misappropriation can reduce the risk of dismissal.

Similarly, the specific facts and allegations of each case are critical when courts determine whether a trade secrets complaint sufficiently has alleged acts constituting misappropriation. Alleging that a defendant has disseminated trade secret information to its clients without permission,[9] or that a defendant breached a confidentiality agreement with plaintiff and used trade secrets to develop a competing product,[10] have sufficiently described the misappropriation in specific cases. What is sufficient to allege improper use, disclosure, or other misappropriation, however, ultimately depends on the facts of each case. The same is true when evaluating the other allegations necessary to assert a trade secret misappropriation claim.[11]

"Reasonable Particularity" When Seeking Trade Secrets Discovery

In addition to the pleadings stage, "reasonable particularity" disputes often erupt during discovery. Courts may require trade secrets to be identified more specifically at that stage, before a defendant is compelled to disclose its own confidential and proprietary information. Indeed, some courts have required an enhanced level of particularity, beyond the "reasonable particularity" necessary to state a claim under Rule 12, for a plaintiff to obtain a defendant's trade secret information.[12]

While several public policy factors support imposing a particularity requirement before a defendant produces its proprietary information, other countervailing factors also apply.[13] These competing policies can create challenging issues for courts and litigants when attempting to determine what degree of detail should be required. Attempting to strike a balance, courts have adopted a "fact-dependent" approach in analyzing such disputes, acknowledging that "no talismanic procedure" exists.[14]

In balancing the competing interests, courts have avoided requiring plaintiffs to disclose "every minute detail" of their trade secrets, or subjecting plaintiffs to a "mini-trial on misappropriation." [15] Instead, courts often assess whether the plaintiff has described its trade secrets sufficiently so as to: (1) provide notice to the defendant of the nature of the plaintiff's claims; and (2) enable the defendant to determine the relevance of the requested discovery.[16] Courts may deem boilerplate references to an unspecified "method" or "process" insufficient to support discovery of a defendant's trade secret information.[17] Accordingly, a plaintiff may be required to identify what elements are secret and proprietary regarding a multi-part product or process, or to explain what combination of components or steps is proprietary and unique, before obtaining a defendant's confidential and proprietary information in discovery.[18]

In some cases, however, the plaintiff's ability to provide greater specificity may be limited.

If the plaintiff owns hundreds of thousands of trade secrets to which a defendant has had access, for example, a court may permit the plaintiff to obtain certain discovery before providing more specificity.[19] Similarly, a defendant's finished product may not be publicly available and may include many variables that a plaintiff cannot evaluate without discovery.[20] Thus, the nature and scope of the alleged misappropriation may pose "an inherent difficulty" for a plaintiff.[21] Courts properly consider such circumstances when deciding the degree of specificity that is appropriate before a defendant needs to produce its sensitive, proprietary information.

Preemption Trends in Trade Secrets Cases

As with particularity disputes, disputes concerning whether an applicable UTSA preempts certain non-UTSA claims may impact litigation strategy in trade secrets cases. This issue arises because plaintiffs often assert both misappropriation claims and potentially preempted tort claims in the complaint, such as breach of fiduciary duty and tortious interference claims. The relevant provision states that the UTSA "displaces" conflicting tort, restitutionary, and other laws providing civil remedies for misappropriation of a trade secret. This provision also states that preemption does not apply to civil remedies that are not based on misappropriation. Further, preemption does not apply to contractual remedies even if based on misappropriation.

One court recently observed that a majority of jurisdictions analyze preemption by assessing whether the same facts are asserted in the UTSA claim and in the non-UTSA claim, preempting the latter claim unless it is factually independent from the UTSA claim. [22] Many courts, moreover, have concluded that UTSA preemption applies even if the allegedly misappropriated information does not qualify as a "trade secret" under the UTSA. [23] As the U.S. Court of Appeals for the Sixth Circuit recognized, however, the "precise scope of the preemption clause has not been interpreted uniformly across UTSA jurisdictions." [24]

The Sixth Circuit noted that in many jurisdictions, the legal test for preemption focuses on: (1) whether the trade secrets claim and the potentially preempted claim share the same legal elements; or (2) whether the trade secrets claim and the potentially preempted claim arise out of the same core facts.[25] The court concluded that Ohio law is similar to the latter approach, and focuses on "the commonality of the operative facts." [26] Thus, Ohio's UTSA preempted both a tortious interference claim, and a conspiracy to misappropriate trade secrets claim, because those claims essentially restated the same "operative facts" as alleged in the trade secrets claim.[27]

Plaintiffs may be able to avoid preemption by showing that the claims are factually distinct even if some overlap exists between the trade secret claim and the other claims. Courts have rejected preemption arguments, for example, based on material distinctions in alleged wrongdoing. In practice, applying these principles can be tricky, and preemption disputes may yield different outcomes in seemingly similar cases, depending on the applicable law and the nuances of the case. In some cases, preemption may not apply unless a non-UTSA claim is based solely on the alleged misappropriation of trade secrets. [28] Yet, in other cases, the same type of claim may be preempted even if only partially based on an alleged misuse of confidential information.[29]

The types of claims that are often the subject of preemption disputes, with results varying based on the jurisdiction and case-specific facts and allegations, include for example:

- tortious interference with a business or contractual relationship; [30]
- unfair competition; [31]
- conversion; [32]
- breach of fiduciary duty; [33] and

- unjust enrichment[34]

Conclusion

Disputes concerning reasonable particularity and preemption in trade secrets cases continue to proliferate. Courts routinely reach different conclusions, sometimes in apparently similar cases, regarding what is sufficiently particular for pleadings purposes or to obtain certain discovery from a defendant. To navigate these issues successfully, counsel should anticipate the disputes likely to arise, and follow the developing law and trends in this area.

Recent trends suggest that, although the facts of each case are critical, the following factors are likely to be important in many cases:

- the nature, scope, or volume of trade secrets at issue in the case;
- whether the plaintiff's complaint describes the purported trade secrets at issue in detail, or provides specific context (such as relevant documents, products or transactions);
- whether the complaint's allegations sufficiently state a claim for misappropriation, and whether more details can be provided without publicly disclosing secrets;
- the extent to which a defendant has responded to the complaint's allegations, potentially reflecting an understanding as to the trade secret information at issue; and
- whether any non-trade secret claims may be preempted under an applicable UTSA, and what standard or test governs that analysis based on applicable law[35]

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[1] Some courts have reasoned that trade secrets need not be disclosed in detail in a complaint for misappropriation "for the simple reason that such a requirement would result in public disclosure of the purported trade secrets." *Autodesk, Inc. v. Zwcad Software Co.*, 2015 U.S. Dist. LEXIS 63610, at *14 (N.D. Cal. May 13, 2015) (quoting *Leucadia, Inc. v. Applied Extrusion Techs., Inc.*, 755 F. Supp. 635, 636 (D. Del. 1991)). See also *Living Color Enters., Inc. v. New Era Aquaculture, Ltd.*, 2015 U.S. Dist. LEXIS 44121, at *24 (S.D. Fla. Apr. 3, 2015) (denying motion to dismiss because plaintiff could not "expand on its description of its trade secrets without actually disclosing the trade secrets" in the complaint) (citing *NPA Assocs., LLC v. Lakeside Portfolio Mgmt., LLC*, 2014 U.S. Dist.

LEXIS 22805, 2014 WL 714812, at *3 (S.D. Fla. Feb. 22, 2014)).

[2] See *Am. Registry, LLC v. Yonah*, 2013 U.S. Dist. LEXIS 171889, at *9 (M.D. Fla. Dec. 5, 2013) (“broad and generic categories of information” deemed insufficient to provide “notice as to the actual trade secrets misappropriated”).

[3] See *Blue Ocean Labs., Inc. v. Tempur Sealy Int’l, Inc.*, 2015 U.S. Dist. LEXIS 173487, *18-*21 (M.D.N.C. Dec. 31, 2015).

[4] See *id.* at *19-*20 (citing cases).

[5] See *id.* at *20 (citing cases); see also *Wal-Mart Stores, Inc. v. Cuker Interactive, LLC*, 2014 U.S. Dist. LEXIS 172452, at *14 (W.D. Ark. Dec. 12, 2014) (denying motion for judgment on pleadings regarding “factually thin” allegations as to identity of trade secrets because “the broader context of the pleadings” provided sufficient notice of the claim).

[6] *GlobalOptions Servs. v. N. Am. Training Grp., Inc.*, 131 F. Supp. 3d 1291, 1300-01 (M.D. Fla. 2015). The complaint stated a claim by alleging that the plaintiff owned valuable trade secrets, that the secrets were misappropriated, and that the defendant was responsible for the misappropriation.

[7] *Vesta Corp. v. AMDPCS Mgmt.*, 80 F. Supp. 3d 1152, 1164 (D. Or. 2015).

[8] *Id.* at 1165.

[9] *GlobalOptions Servs.*, 131 F. Supp. 3d at 1301.

[10] See *Cocona, Inc. v. Singtex Indus. Co.*, 2014 U.S. Dist. LEXIS 144184, at *31-*32 (D. Colo. Oct. 9, 2014).

[11] See, e.g., *Capricorn Mgmt. Sys. v. Gov’t Emples. Ins. Co.*, 2016 U.S. Dist. LEXIS 46584, at *11-*13 (E.D.N.Y. Apr. 6, 2016) (denying motion to dismiss Maryland UTSA claim because complaint sufficiently and plausibly alleged economic value of trade secrets and reasonable efforts to protect trade secrets).

[12] See *Blue Ocean Labs., Inc. v. Tempur Sealy Int’l, Inc.*, 2015 U.S. Dist. LEXIS 173487, at *20; see also *DSM Dyneema, LLC v. Thagard*, 2015 NCBC LEXIS 50, at *13 (N.C. Super. Ct., May 12, 2015) (“The level of specificity required of a plaintiff to survive a motion for judgment on the pleadings under Rule 12(c) is less than that required to permit discovery into an adversary’s confidential and trade secret information.”). In California, a statute requires that a plaintiff identify its trade secrets with reasonable particularity before conducting discovery on the misappropriation claim. See Cal. Civ. Code § 2019.210.

[13] See, e.g., *BioD, LLC v. Amnio Tech., LLC*, 2014 U.S. Dist. LEXIS 109755, at *14-*17 (D. Ariz. Aug. 5, 2014) (summarizing competing policy considerations that courts consider when addressing trade secret particularity in the discovery context); *DSM Dyneema, LLC v. Thagard*, 2014 NCBC LEXIS 51, at *13-*16 (N.C. Super. Ct., Oct. 17, 2014).

[14] *Vesta Corp. v. AMDPCS Mgmt.*, 2015 U.S. Dist. LEXIS 159883, at *8 (D. Or. Nov. 30, 2015) (quoting *DeRubeis v. Witten Technologies, Inc.*, 244 F.R.D. 676, 680 (N.D. Ga. 2007)).

[15] *DSM Dyneema, LLC v. Thagard*, 2014 NCBC LEXIS 51, at *18 (N.C. Super. Ct., Oct. 17, 2014) (quoting *Prolifiq Software Inc. v. Veeva Sys. Inc.*, 2014 U.S. Dist. LEXIS 77493, at *5 (N.D. Cal. June 4, 2014)).

[16] *Id.*; see also *BioD, LLC*, 2014 U.S. Dist. LEXIS 109755.

[17] See *Hill v. Best Med. Int'l, Inc.*, 2010 U.S. Dist. LEXIS 62726, at *15 (W.D. Pa. June 24, 2010) (in context of request for discovery concerning defendant's trade secrets, "general allegations and generic references to products" deemed insufficient, especially after plaintiff obtained "extensive discovery").

[18] See *Switch Communs. Group v. Ballard*, 2012 U.S. Dist. LEXIS 85148, at *15 (D. Nev. June 19, 2012); see also *DSM Dyneema, LLC v. Thagard*, 2014 NCBC LEXIS 51.

[19] A trade secret plaintiff company "that has hundreds of 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." *DeRubeis v. Witten Techs., Inc.*, 244 F.R.D. 676, 680 (N.D. Ga. 2007); see also *Vesta Corp. v. Amdocs Mgmt. Ltd.*, 2015 U.S. Dist. LEXIS 159883, at *8; *DSM Dyneema, LLC v. Thagard*, 2015 NCBC LEXIS 50, at *27 n.6.

[20] *DSM Dyneema, LLC v. Thagard*, 2015 NCBC LEXIS 50, at *27.

[21] See *id.*

[22] *Thola v. Henschell*, 164 P.3d 524, 530 (Wash. Ct. App. 2007).

[23] See, e.g., *HDNet LLC v. N. Am. Boxing Council*, 972 N.E.2d 920, 924-25 (Ind. Ct. App. 2012).

[24] *Stolle Mach. Co., LLC v. Ram Precision Indus.*, 605 Fed. Appx. 473, 484 (6th Cir. Mar. 16, 2015).

[25] See *id.* at 484.

[26] *Id.* at 484-85.

[27] *Id.* at 485-86.

[28] See *Allied Portables, LLC v. Youmans*, 2016 U.S. Dist. LEXIS 7109, at *14 (M.D. Fla. Jan. 6, 2016) (reasoning that preemption did not apply to tort claims that were "not solely based upon" alleged misappropriation of trade secrets, as such tort claims therefore reflected "material distinctions" from the misappropriation claim).

[29] See *Giles Constr., LLC v. Tooele Inventory Solution, Inc.*, 2015 U.S. Dist. LEXIS 72722, at *20 (D. Utah June 2, 2015) (claim preempted, even if not based solely on alleged misuse of information, if the claim would fail without the allegations regarding misuse of information).

[30] Compare *Giles Constr., LLC*, 2015 U.S. Dist. LEXIS 72722 (claim for interference with contractual relations preempted under Utah's UTSA), and *Allied Portables, LLC v. Youmans*, 2016 U.S. Dist. LEXIS 7109 (claim for interference with business relationship not preempted under Florida's UTSA).

[31] Compare *Cnty. Ties of Am., Inc. v. NDT Care Servs., LLC*, 2015 U.S. Dist. LEXIS 14990 (W.D. Ky. Feb. 9, 2015) (unfair competition claim preempted under Kentucky's UTSA), and *Orca Communs. Unlimited, LLC v. Noder*, 337 P.3d 545 (Ariz. 2014) (unfair competition claim not preempted under Arizona's UTSA).

[32] Compare *Superior Edge, Inc. v. Monsanto Co.*, 964 F. Supp. 2d 1017, 1040 (D. Minn. 2013) (conversion claim preempted under Minnesota's UTSA), and *Angelica Textile Services, Inc. v. Park*, 220 Cal. App. 4th 495 (2013) (conversion claim not preempted

under California's UTSA).

[33] Compare *Putters v. Rmax Operating, LLC*, 2014 U.S. Dist. LEXIS 51520 (N.D. Ga. Apr. 14, 2014) (breach of fiduciary duty claim preempted under Georgia's UTSA), and *Allied Portables, LLC v. Youmans*, 2016 U.S. Dist. LEXIS 7109 (claim for breach of fiduciary duty not preempted under Florida's UTSA).

[34] Compare *Giles Constr., LLC*, 2015 U.S. Dist. LEXIS 72722 (unjust enrichment claim preempted under Utah's UTSA), and *Thola v. Henschell*, 164 P.3d 524 ("The UTSA expressly allows unjust enrichment claims"; applying Washington law)).

[35] For example, "courts are divided about whether the UTSA preemption clause should be read literally" as displacing only remedies concerning trade secrets or "should be interpreted more broadly" as applying to any confidential or secret information. *Stolle Mach. Co., LLC*, 605 Fed. Appx. at 484. The emerging majority view appears to apply the UTSA's "displacement" provision to preempt common law tort claims even if those claims involve confidential information that does not qualify for protection as a trade secret. See, e.g., *HDNet LLC*, 972 N.E.2d at 924-25.

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