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# Trade Secret Identification Rule

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Trade secret misappropriation litigation presents a paradox. To mount a defense, a defendant must be apprised of what the plaintiff asserts was misappropriated. A plaintiff cannot prove misappropriation without knowledge of business or technical information utilized by the defendant and a comparison of that information to the plaintiff's trade secrets. In effect, entities that are often direct competitors must share highly sensitive information in order for either side to succeed in a misappropriation action. The following discusses the method developed to overcome this inherent apprehension in trade secret litigation; namely the initial trade secret identification requirement borne by plaintiffs.

Courts impose two types of identification requirements, each at a different stage of the litigation. Some jurisdictions such as California and Delaware require identification and disclosure of the alleged trade secrets at issue with "reasonable particularity" before trade secret-related discovery will commence. *See CAL. CODE CIV. PROC. § 2019.210* (Deering 2005); *SmithKline Beecham Pharm. Co v. Merck & Co.*, 766 A.2d 442, 447 (Del. 2000). Pre-discovery identification prevents harassment litigation by ex-employers against departing employees, or litigation by business rivals seeking to impose prohibitive litigation costs on a competitor. *Computer Econ. Inc. v. Gartner Group, Inc.*, 50 F. Supp. 2d 980, 985 n.6 (S.D. Cal. 1999). Pre-discovery disclosure also exposes unwarranted claims early in the litigation prior to the burden of the discovery process. *Id.* Furthermore, a pre-discovery rule effectuates the operation of discovery itself. A court cannot shape the scope of discovery or rule on the relevancy of discovery requests without an identification of the trade secrets at issue. *Magnox v. Turner*, No. 11951, 1991 Del. Ch. LEXIS 140, at \*4 (Del. Ch. Sep. 10, 1991); *Engelhard Corp. v. Savin Corp.*, 505 A.2d 30, 33 (Del. Ch. 1986). Similarly, a defendant cannot formulate its defenses if it has no information about what was allegedly misappropriated. See 4 ROGER M. MILGRIM, *MILGRIM ON TRADE SECRETS* § 16.01[5][b] (2005).

An identification requirement is also often imposed as part of the essential element of a plaintiff's misappropriation claim requiring existence of a genuine trade secret. *See ECT Int'l, Inc. v. Zwerlein*, 597 N.W.2d 479, 482 (Wis. Ct. App. 1999); *see also MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 522 (9th Cir. 1993). Without an identification requirement, a court could not determine whether a plaintiff's allegedly secret business or proprietary information meets the jurisdiction's definition of a trade secret. Similarly, a fact-finder could not compare the defendant's conduct to the plaintiff's business information to determine misappropriation without trade secret identification. Thus, whether prior to discovery or during resolution of the claim on the merits, a plaintiff bears the burden of trade secret identification.

This raises the question of how much specificity is required. In *Diodes, Inc. v. Franzen*, 67 Cal. Rptr. 19 (Cal. Ct. App. 1968), the plaintiff company alleged that former officers left the company and, using Diodes' "secret process," formed a competitor. However, Diodes did no more to identify its secret process than merely allude that the process had something to do with diode manufacturing. The California Court of Appeals found this insufficient to state a claim for trade secret misappropriation. The court explained that while a plaintiff need not "spell out" the details of its trade secrets, it must, prior to the start of discovery, "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." In 1984, California adopted the Uniform Trade Secrets Act, incorporating a provision intended to codify the holding in *Diodes*, which later became California Code of Civil Procedure § 2019.210. *Gartner Group*, 50 F. Supp. 2d at 985-86.

Some cases following *Diodes* indicate what identification approaches should be avoided. One post-*Diodes* ruling noted that “[t]he burden is on the plaintiff to specify those [trade secret misappropriation] charges, not upon the defendant to guess at what they are.” *Xerox Corp. v. Int'l Bus. Machs. Corp.*, 64 F.R.D. 367, 371 (S.D.N.Y. 1974). Some specific disclosure methods would keep an opposing party guessing as to the identity of the trade secrets at issue. A disclosure with scant factual content that amounts to “little more than traditional business rules-of-thumb: know your customer, explore your market, plan your steps” is likely to be “fatally inadequate.” *PostX Corp. v. Secure Data in Motion*, No. C 02-04483 SI, slip op. at 9 (N.D. Cal. Feb. 24, 2004). Overly broad categories of claimed trade secrets are similarly viewed with skepticism. *Sys. Am., Inc. v. Softline, Inc.*, Case No.: C96-20730 RMW PVT, 1996 U.S. Dist. LEXIS 22415, at \*3 (N.D. Cal. Oct. 30, 1996). Also, disclosing too much information can be problematic. Identification should not deteriorate into a scavenger hunt by the opposition and the court, requiring sifting extraneous information from the disclosure, *IDX Sys. Corp. v. Epic Sys. Corp.*, 285 F.3d 581, 584 (7th Cir. 2002), or piecing together the trade secrets from the disclosed information. See *Del Monte Fresh Produce Co. v. Dole Food Co.*, 148 F. Supp. 2d 1322, 1325-26 (S.D. Fla. 2001).

The critical question remains, “What is reasonable or sufficient particularity?” The California Court of Appeals recently defined “reasonable particularity” and noted an identification strategy that may often demonstrate the adequacy of a trade secret disclosure. *Advanced Modular Sputtering, Inc. v. Superior Court*, 33 Cal. Rptr. 3d 901 (Cal. Ct. App. 2005). In *Advanced Modular Sputtering*, the plaintiff alleged that former employees misappropriated its trade secrets, comprising technology within the plaintiff’s sputtering machines. The trial court prevented commencement of discovery pending the plaintiff’s identification of the trade secrets at issue. The plaintiffs submitted three trade secret designations, attaching expert witness declarations to support its position that the trade secrets were adequately described. The trial court found each designation inadequate.

The California Court of Appeals reversed, explaining that “reasonable particularity” does not require description of a trade secret in every minute detail. The court also held that a plaintiff need only make a *reasonable* showing, that is, a fair, proper, just, or rational showing, under all the circumstances to identify alleged trade secrets in order to satisfy the “reasonable particularity” standard. The court

further noted that where credible experts declare that they understand the trade secret designation and can distinguish the alleged secrets from information already known in the field, the designation should generally be considered adequate to permit discovery to commence. However, the court cautioned, “[w]here . . . the alleged trade secrets consist of incremental variations on, or advances in the state of the art in a highly specialized technical field, a more exacting level of particularity may be required to distinguish the alleged trade secrets from matters already known to persons skilled in that field.”

For cases involving technical information, one must differentiate between merely describing the technology and describing the trade secret. *IDX Sys.*, 285 F.3d at 583-84. For example, “software” generally comprises many components including source code, object code, program architecture, and many others. *ECT Int'l*, 597 N.W.2d at 482. A plaintiff cannot simply declare that particular software contains valuable trade secrets and then point to a defendant’s use of the software as misappropriation. *Mai Sys.*, at 991 F.2d at 522-23. Instead, a plaintiff must specifically identify the trade secret contained in the software. For example, in an unpublished opinion, the Ninth Circuit found specific identification where the plaintiff described a “factory access code” within the software at issue that was “necessary to activate the optional features of the . . . product.” *Twin Vision Corp. v. BellSouth Commc'n Sys., Inc.*, No. 97-55231, 1998 U.S. App. LEXIS 13607, at \*6 (9th Cir. 1998).

A conclusory reference to a general business information category may also be similarly insufficient, even if the category is commonly the subject of misappropriation actions. Customer lists are an example. One case suggests sufficient disclosure of trade secrets from customer lists as including “identification and description of the specific customer lists [the plaintiff] believes were misappropriated including precisely what information was found on these lists, how they were compiled, and how they were maintained; whether the lists were stored on documents or databases; and proper identification of these documents or databases.” *PostX Corp. v. Secure Data in Motion*, No. C 02-04483 SI, slip op. at 9.

In sum, an adequate showing need not publicize the trade secrets at issue, but must give notice to the defendant and the court of the allegedly actionable conduct. This can be fulfilled by focusing on why allegedly misappropriated information merits protection, rather than identifying an

area of technology or simply listing commonly protected categories of information. Also, in many cases, including those involving technical information, use of expert declarations citing the difference between the alleged trade secret and non-actionable public information can be crucial. The paradox of trade secret litigation can be a challenge, but, utilizing proper procedures, is not impossible to overcome.

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