

ARTICLES

Betwixt and Between: Finding Specificity in Trade Secret Misappropriation Cases

By Eric D. Welsh

Trade secret misappropriation cases create a unique problem for courts. The parties become quickly embroiled in litigation over the misappropriation of trade secrets, sometimes with only bare-bone allegations of those trade secrets having been pled in the first place. Defendants, in many cases, are left trying to defend against claims that are vague and uncertain, putting them at a distinct disadvantage early in the case, especially when they are defending against morphing allegations of what was misappropriated. Plaintiffs resist the prompting to provide more detail out of concern over inadvertent disclosure and the fear that providing such detail may cut off discovery of the extent of the defendants' transgressions due to a lack of knowledge of the full extent of the misappropriation. The stakes on both sides of a misappropriation case are high, and the pressure is on the courts to find the right path forward.

Courts around the country have grappled with this issue, trying to find reasonable solutions to this vexing problem. Some opt for requiring more disclosure at the pleading stage. Others require early identification of the trade secrets before general discovery of the defendant may proceed. The ever-growing trend across the nation appears to be not requiring heightened pleading and instead permitting pre-discovery identification of the trade secrets.

Pleading Standards for Trade Secret Misappropriation Claims

Courts from around the country have approached motions to dismiss trade secret claims in a variety of ways. Some have required little specificity in denying motions to dismiss. *See, e.g., SBM Site Servs., LLC v. Garrett*, No. 10-CV-00385-WJM-BNB, 2012 WL 628619, at *10 (D. Colo. Feb. 27, 2012); *nexTUNE, Inc. v. McKinney*, No. C12-1974 TSZ, 2013 WL 5211778, at *3 (W.D. Wash. Sept. 17, 2013). Other cases have described trade secret allegations as “thin,” providing arguably little more than a conclusory statement or simply identifying the trade secret as “categories” of information, yet dismissal was denied under a generous, notice pleading standard. *See, e.g., Wal-Mart Stores, Inc. v. Cuker Interactive, LLC*, No. 5:14-CV-5262, 2014 WL 7070907, at *5 (W.D. Ark. Dec. 12, 2014); *Medtech Prods., Inc. v. Ranir, LLC*, 596 F. Supp. 2d 778, 790 (S.D.N.Y. 2008). Frequently, courts note that the issue of the “existence of the trade secret” is better left for summary judgment.

Other courts have dismissed trade secret claims for failing to provide enough specificity. In these cases, though, the courts have either found the pleading not to have satisfied the “plausibility” standard set by *Bell Atlantic Corp. v. Twombly*, 550 U.S. 544 (2007), and *Ashcroft v. Iqbal*, 556 U.S. 662 (2009), or to have relied on conclusory statements rather than factual allegations. *See,*

e.g., *Cocona, Inc. v. Singtex Indus. Co.*, No. 14-CV-01593-MJW, 2014 WL 5072730, at *11 (D. Colo. Oct. 9, 2014). None of these cases imposed a heightened pleading standard. Some courts have even flatly rejected the argument that a higher standard is to be applied to a trade secret claim, finding such a result unwarranted under that state’s trade secret act, or concluded that the specificity could be obtained through discovery. *Interactive Solutions Grp., Inc. v. Auozone Parts, Inc.*, No. 11-13182, 2012 WL 1288173, at *3 (E.D. Mich. Apr. 16, 2012); *Edgenet, Inc. v. GSI AISBL*, 742 F. Supp. 2d 997, 1028 (E.D. Wis. 2010); *DSMC, Inc. v. Convera Corp.*, 273 F. Supp. 2d 14, 24 (D.D.C. 2002).

North Carolina’s Evolving Approach to Trade Secret Identification

North Carolina is an example of courts following a different path. Several years ago, the North Carolina courts waded into the issue of the pleading specificity required for a trade secret claim to withstand a motion to dismiss. In *Washburn v. Yadkin Valley Bank & Trust Co.*, 660 S.E.2d 577 (2008), the North Carolina Court of Appeals affirmed the trial court’s dismissal of a counterclaim brought under North Carolina’s Trade Secrets Protection Act, finding that the “sweeping and conclusory statements [in the counterclaim], without specifically identifying the trade secrets allegedly misappropriated, [were] ‘insufficient to state a claim for misappropriation’.”

In arriving at this conclusion, the *Washburn* court relied on two opinions, *Analog Devices, Inc. v. Michalski*, 579 S.E.2d 449, 454 (2003), and *VisionAIR, Inc. v. James*, 606 S.E.2d 359 (2004), both of which involved motions for preliminary injunctions, *not* motions to dismiss under Federal Rule of Civil Procedure 12(b)(6). The *Washburn* court latched onto a statement by the *VisionAIR* court, which was clearly dicta: “To plead misappropriation of trade secrets, ‘a plaintiff must identify a trade secret with sufficient particularity so as to enable a defendant to delineate that which he is accused of misappropriating and a court to determine whether misappropriation has or is threatened to occur.’” That statement—equating the proof issue in an injunction proceeding with a pleading standard—was adopted by *Washburn* and set the standard for motions to dismiss in trade secrets cases in North Carolina.

Curiously, though, North Carolina’s Trade Secrets Protection Act does not speak to the level of specificity required for pleading a trade secret. It broadly defines a “trade secret” as “business or technical information, including but not limited to a . . . compilation of information, method, technique, or process” that (i) derives actual or potential commercial value from not being generally known or readily ascertainable through independent development or reverse engineering; and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy. *See* N.C. Gen. Stat. § 66-152(3). This definition is similar to that employed in the Uniform Trade Secrets Act. North Carolina’s Rules of Civil Procedure only require notice pleading and do not single out trade secret misappropriation claims for greater pleading specificity.

Following the decision in *Washburn*, motions to dismiss under Rule 12(b)(6) have become more common, and North Carolina courts have struggled to find whether the claimed trade secret has been pled with sufficient specificity. Some cases in which little detail was provided in the

complaint find approval while other complaints, with not terribly dissimilar allegations, fall short. A comparison of several recent cases in the North Carolina Business Court highlights this struggle.

In one case, allegations of misappropriated information, which included “customer lists, customer contract information, pricing information and product information,” lacked the requisite specificity for a trade secret claim because they were “sweeping and conclusory,” and the court dismissed the claim. *AECOM Tech. Corp. v. Keating*, 2012 WL 370296, at *2 (N.C. Super. Ct. Feb. 6, 2012). In another case, the trade secret was adequately identified because it was alleged to include “(a) customer lists including names, contact persons, addresses and phone number of [plaintiff]’s customers; (b) the ordering habits, history and needs of [plaintiff]’s customers and (c) [plaintiff]’s pricing and inventory management strategies.” *Koch Measurement Devices, Inc. v. Armke*, 2013 WL 5639221, at *3 (N.C. Super. Ct. Oct. 14, 2013). One must ask if the heart of the allegation was any different in the one case than in the other. Each involved customer lists, contact information, and pricing related information—all of which North Carolina recognizes as trade secrets.

More recently, the North Carolina Business Court denied a motion to dismiss a trade secret claim, finding that the allegations satisfied the required specificity because the plaintiff alleged the trade secret included “confidential customer information such as customer contact information and customer buying preferences and history . . . confidential freight information, sales reports, prices and terms books, sales memos, sales training manuals, commission reports and information concerning [plaintiff]’s relationship with its vendors.” *S. Fastening Sys., Inc. v. Grabber Const. Prods., Inc.*, 2015 WL 2031007, at *4 (N.C. Super. Ct. Apr. 28, 2015). This allegation, conclusory and general as it was, satisfied the court, in part, because “more context” was provided in the complaint.

A Different Path—Pre-Discovery Identification

Most courts, rather than imposing a higher level of pleading specificity, have gone down a different path, requiring some form of early identification of the trade secret by the plaintiff in discovery. *See, e.g., Animal Care Sys., Inc. v. Hydropac/Lab Prods., Inc.*, No. 13-CV-00143-MSK-BNB, 2015 WL 1469513, at *5 (D. Colo. Mar. 26, 2015); *Dana Ltd. v. Am. Axle & Mfg. Holdings, Inc.*, No. 1:10-CV-450, 2013 WL 603104, at *1 (W.D. Mich. Feb. 19, 2013); *Porous Media Crop. v. Midland Brake Inc.*, 187 F.R.D. 598, 599 (D. Minn. 1999). Many courts require pre-discovery identification of the trade secret by the plaintiff before permitting any discovery of the defendant. *See, e.g., BioD, LLC v. Amnio Tech., LLC*, No. 2:13-CV-1670-HRH, 2014 WL 3864658, at *5–6 (D. Ariz. Aug. 6, 2014); *DeRubeis v. Witten Techs., Inc.*, 244 F.R.D. 676, 681 (N.D. Ga. 2007); *Del Monte Fresh Produce Co. v. Dole Food Co. Inc.*, 148 F. Supp. 2d 1322, 1324–25 (S.D. Fla. 2001); *AutoMed Techs., Inc. v. Eller*, 160 F. Supp. 2d 915, 925–26 (N.D. Ill. 2001); *Engelhard Corp. v. Savin Corp.*, 505 A.2d 30, 33 (Del. Ch. 1986). California even has legislation requiring this type of early identification. *See* Cal. Civ. Proc. Code § 2019.210.

Courts requiring pre-discovery identification do so to strike an appropriate balance between allowing merited claims to proceed while permitting a defendant an opportunity to develop its defense. Courts frequently note the following as rationale for permitting this identification:

- avoiding meritless claims;
- avoiding attempts by a plaintiff to uncover the defendant's trade secrets for competitive purposes;
- avoiding efforts to engage in "fishing expeditions" of the defendant;
- permitting a defendant to prepare an early defense;
- providing the court with the confines of relevance to decide future discovery disputes; and
- avoiding the ever-morphing allegations based on what a plaintiff uncovers in discovery.

The option of requiring pre-discovery identification of the trade secret is finding increasing acceptance throughout the country as a practical means of managing trade secret litigation early in the case.

North Carolina has joined the growing list of states that recognize some re-sequencing of discovery to provide early identification of the trade secrets. In a case of first impression, the North Carolina Business Court recently permitted pre-discovery identification of the trade secrets before permitting discovery of the defendant to proceed. *DSM Dyneema, LLC v. Thagard*, No. 13 CVS 1686, 2014 WL 5317770, at *6 (N.C. Super. Ct. Oct. 17, 2014). In that case, the court found that pre-discovery identification of the trade secrets was supported by "strong practical and policy reasons," including assisting the court in determining relevancy in discovery disputes, which invariably occur when a defendant opposes broad and overreaching discovery by a plaintiff. The court attempted to find a balance so as not to overly restrict discovery (recognizing it may be difficult to ascertain the full extent of the misappropriation), yet obtain enough specificity to address discovery concerns.

The court concluded that judicial discretion would control when pre-discovery identification would be required, and this determination would be based on the "context" of the facts alleged. Significantly, the court stated that the specificity required to survive a motion to dismiss was less than the specificity required to engage in discovery of the defendant on the trade secret. Allegations of misappropriation of "customer lists, pricing information, transaction histories, key contacts, and customer leads" may be sufficient to plead a claim, yet fall short of the specificity needed to permit discovery of the defendant.

A similar approach was taken recently by another North Carolina court, although through a different route. The court denied the motion to dismiss a trade secret claim, finding the claim

sufficiently pled, but then *sua sponte* ordered the plaintiff to provide more specificity under Rule 12(e), holding discovery otherwise in abeyance. *Le Bleu Corp. v. B. Kelley Enters., Inc.*, 2014 WL 7589495, at *5–6 (N.C. Super. Ct. Dec. 9, 2014). Other courts around the country have followed this route as well. *See, e.g., Metis Int’l, L.L.C v. Ace INA Holdings, Inc.*, No. CIV.A.SA 04CA-1033-XR, 2005 WL 1072587, at *5 (W.D. Tex. May 6, 2005).

Where to Go from Here?

From a defendant’s perspective, many options exist to challenge a trade secret misappropriation claim, perhaps more so in North Carolina than in other jurisdictions. While a motion to dismiss such a claim remains an option and may be appropriate in certain cases, the better course may require delineation of the trade secret in advance of discovery, either through a re-sequencing of discovery or a motion for a more definite statement coupled with a stay of discovery. Both approaches would protect the defendant, while permitting the plaintiff to proceed with its case at that early stage.

However, permitting pre-discovery identification raises a host of issues that must be addressed. While the level of specificity needed in the pre-discovery identification stage must be higher than that required to plead a claim, how much specificity is required remains undetermined. It has been stated that “the term trade secret is one of the most elusive and difficult concepts in the law to define” and the “question of whether an item taken . . . constitutes a trade secret is of the type normally resolved by a fact finder after full presentation of evidence from each side.” *Furmanite Am., Inc. v. T.D. Williamson, Inc.*, 506 F. Supp. 2d 1134, 1141 (M.D. Fla. 2007). Courts will likely continue to struggle in making these trade secret determinations without the aid of proof that will follow in discovery.

Keywords: litigation, business torts, trade secrets, pre-discovery identification, misappropriation, Uniform Trade Secrets Act

[Eric Welsh](#) is a partner in the Charlotte, North Carolina, office of Parker Poe Adams & Bernstein LLP. Blake Stafford’s contribution to this article is greatly appreciated.