Reuters Legal News

Plausibility: the gatekeeper role in trade secret misappropriation cases

By R. Mark Halligan, Esq., FisherBroyles, LLP

MARCH 16, 2022

In Bell Atlantic Corp. v. Twombly, 550 U.S. 544 (2007), the U.S. Supreme Court announced a heightened pleading standard that would govern filing civil suits in federal court in antitrust cases. Two years later, the Supreme Court in *Ashcraft v. Iqbal*, 556 U.S. 622 (2009), held that the standard announced in *Twombly* governs all civil actions and proceedings in the United States district courts.

The *Twombly/Iqbal* pleading standard rests upon "plausibility." As many commentators have observed, this heightened pleading standard for civil actions filed in federal court eradicates Rule 8(a) of the Federal Rules of Civil Procedure which requires only "a short and plain statement of the claim showing that the pleader is entitled to relief."

The pre-filing investigation and preparation of a trade secret misappropriation lawsuit are complex tasks that involve many factual issues.

"Plausibility" means more than a sheer "possibility." A claim has facial "plausibility" only when the plaintiff pleads sufficient factual content to allow the court to draw a reasonable inference that the defendant is liable for the alleged misconduct.

The standard today is a FRCP Rule 12(b)(6) motion to dismiss the complaint for failure to allege a plausible cause of action for trade secret misappropriation even after accepting the complaint's factual allegations as true.

The pre-filing investigation and preparation of a trade secret misappropriation lawsuit are complex tasks that involve many factual issues.

To adequately allege the existence of a trade secret, the plaintiff must describe the trade secret with sufficient particularity to separate it from matters of general knowledge in the trade or of special knowledge of those persons skilled in the trade.

Since the enactment of the Defend Trade Secrets Act (DTSA) on May 11, 1996, the federal district courts have been laser-focused on the deployment of the *Twombly/Iqbal* pleading standards to dismiss trade secret misappropriation lawsuits before the parties pursue futile claims.

Trial judges recognize that trade secret misappropriation claims are often filed without an adequate pre-filing investigation and the U.S. district courts are becoming increasingly intolerant of the plaintiff using the discovery process to create a "trade secret" after-the-fact and spending millions of dollars on a "fishing expedition" that would not have occurred if the plaintiff had conducted an adequate pre-filing investigation before filing the lawsuit for trade secret misappropriation.

The underlying reality is that most trade secret plaintiffs have not conducted a proper pre-filing investigation to determine the existence of a specific trade secret, ownership of the specific trade secret, notice to employees of the specific trade secret, and evidence of access to the specific trade secret.

In addition, there should also be an examination of the six common law factors derived from Section 757 of the Restatement (First) of Torts to adjudicate whether a specific piece of information qualifies as a statutory trade secret.

The six factors are:

> Factor 1: The extent to which information is known outside the company (the more extensively the information is known outside the company, the less likely that it is a protectable trade secret).
>
> Factor 2: The extent to which the information is known by employees and others involved in the company (the greater the number of employees who know the information, the less likely that it is a protectable trade secret).
>
> Factor 3: The extent of measures taken by the company to guard the secrecy of the information (the greater the security measures, the more likely that it is a protectable trade secret).
>
> Factor 4: The value of the information to the company and competitors (the greater the value of the information to the company and its competitors, the more likely that it is a protectable trade secret).
>
> Factor 5: The amount of time, effort and money expended by the company in developing the information (the more time,

effort and money expended in developing the information, the more likely that it is a protectable trade secret).

Factor 6: The ease or difficulty with which the information could be properly acquired or duplicated by others (the easier it is to duplicate the information, the less likely that it is a protectable trade secret).

There are two other avenues to explore during the pre-filing investigation: the combination trade secret and the negative know-how trade secret.

To adequately allege the existence of a trade secret, the plaintiff must describe the trade secret with sufficient particularity to separate it from matters of general knowledge in the trade or of special knowledge of those persons skilled in the trade.

A trade secret can exist in a "combination" of characteristics and components, each of which, by itself, is in the public domain, but the unified process, design, and operation of which in unique combination, affords a competitive advantage and is a protectable secret.

The modern law of trade secrets also protects negative know-how. Courts have long recognized the viability of "negative know-how" as a trade secret — what doesn't work — because it confers upon the receiving party the benefit of steering clear of fruitless development pathways saving time and money.

There should be a pre-filing investigation to determine if reasonable measures have been taken to protect the specific trade secret. If there has been a disclosure of the alleged trade secret to a third party without an obligation of confidentiality (such as an NDA), this will cause the forfeiture of the trade secret status of the alleged trade secret.

The misappropriation analysis comes next. There must be evidence of unauthorized acquisition, unauthorized disclosure or unauthorized use. Further, there cannot be a threatened or actual misappropriation of information that is not a statutory trade secret. If there is no "trade secret" then there cannot be a cause of action for trade secret misappropriation.

The final step in the pre-filing investigation relates to injunctive relief and damages. The actual or threatened misappropriation of a specific trade secret can be enjoined. In addition, the DTSA now provides emergency procedures for the ex parte seizure of devices and computers storing the purloined trade secrets. If the purloined trade secret still exists, then plaintiff should seek emergency relief to recover the trade secrets and enjoin any further disclosure or use of the stolen trade secrets

The trade secret owner can recover the actual loss caused by the trade secret misappropriation and the unjust enrichment caused by the misappropriation of the trade secret not taken into account in computing actual loss. If neither damages nor unjust enrichment can be proven, the trade secret owner can receive a royalty for the misappropriator's unauthorized disclosure or use of the trade secret.

The time is long overdue for trade secret owners to establish an internal trade secret asset management system for the identification, classification, protection, and valuation of trade secret assets. The days of pleading a cause of action for trade secret misappropriation without an adequate pre-filing investigation are over. Drafting a complaint infested with just artificial labels, legal conclusions or just a formulaic recitation of the elements of a trade secret misappropriation claim will not (or should not) survive a FRCP Rule 12(b)(6) motion to dismiss applying the *Twombly/Iqbal* pleading requirements.

R. Mark Halligan is a regular contributing columnist on trade secrets law for Reuters Legal News and Westlaw Today.

About the author

R. Mark Halligan is a partner at **FisherBroyles, LLP**, and is based in Chicago. He focuses his practice on intellectual property litigation and is recognized as a leading practitioner in the development of automated trade secret asset management blockchain systems. He has taught Advanced Trade Secrets Law in the LLM program at UIC John Marshall Law School for the past 26 years and is the lead author of the "Defend Trade Secrets Act Handbook," 3rd Edition, published by Wolters Kluwer. He can be reached at rmark.halligan@fisherbroyles.com.

This article was first published on Reuters Legal News and Westlaw Today on March 16, 2022.