

## Business Law & Business Litigation: Trade Secret Litigation: Protecting the Secret Sauce

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Trade secret litigation is how businesses protect the "recipe for the secret sauce" or the algorithms for proprietary software. It may also be considered the means by which departing employees are harassed and competitors unfairly handicapped. Trade secret litigation may be encountered in "bet the farm" situations and it is important to at least be able to spot relevant issues for your clients. Because trade secret litigation, at its core, involves allegations of theft, there are also criminal implications. See, e.g., the Consumer Fraud and Abuse Act, 18 U.S.C. § 1030. This article provides a brief overview of issues practitioners will encounter in trade secret litigation.

### What Constitutes a Trade Secret?

New Hampshire and the majority of states have enacted the Uniform Trade Secrets Act ("UTSA"). Massachusetts, by contrast, has its own sui generis law that is beyond the scope of this article. The UTSA defines a trade secret as (1) information that is commercially valuable because it is not generally known; and (2) subject to reasonable efforts to maintain its secrecy. A trade secret is misappropriated when it is used or disclosed without the consent of the trade secret holder by a person who (1) improperly acquired it; (2) acquired it from someone who improperly acquired it; or (3) acquired it subject to a duty to protect the information.

Trade secrets are almost anything a business considers commercially valuable, from a customer list to modifications made to standard equipment to improve efficiency, to the way software is organized. Trade secrets are not limited to software source code, and may also include the algorithmic, "if this—then that," logic that underpins the software. Trade secrets exist in all kinds of businesses. That said, the key to maintaining trade secrets is the owners' efforts to keep them confidential. The recipe for the secret sauce loses its value if everyone knows it. This contrasts with patents which are publicly registered with the Patent and Trademark Office ("PTO"). Another difference is that patents, by definition, must be unique, whereas a trade secret, as long as it is independently developed, may be possessed simultaneously by more than one business.

By definition, a trade secret must also have commercial value. Commercial value, however, is not simply in the eye of the beholder. Ideas that are nothing more than common sense (e.g., treat the customer well) are unlikely to qualify as trade secrets. Consider the following questions when assessing competitive value: Was the trade secret difficult to develop? Where did the idea come from? Is the secret relatively unique? Is the concept a differentiator for the client's business?

The trade secret holder must also make reasonable efforts to maintain the secrecy of the commercially valuable information. Secrecy need not be absolute and depends on the nature of the trade secret at issue. Are reasonable policies and practices in place in the workplace to protect confidentiality? A company that publishes client testimonials on its website cannot then claim the identity of those clients as a trade secret. Extreme measures, however, are not required. Every party suspected of coming into possession of a client's trade secrets need not be sued. Trade secrets also may be shared with others if the recipients agree to maintain secrecy, as, for example through non-disclosure agreements ("NDAs") or licensing agreements.

## Maintaining Confidentiality during Suit

Litigation over trade secret misappropriation requires the business to disclose what was misappropriated, even though the trade secrets at issue are highly confidential. This requirement results in the need to carefully adopt, through court-approved stipulations, specific strategies that allow the parties to share information without giving up the store. Even the best confidentiality order, however, is prone to "leak."

Confidentiality orders in trade secret cases allow for materials to be marked "confidential" and "highly confidential." The latter category is often referred to as "LEO" for "lawyer's eyes only." LEO discovery may only be reviewed by the lawyers, their staffs and the experts. Clients may only be given the broad gist of the information that is highly confidential. This often requires an expert to substitute for the client in reviewing technical material, leading to increased litigation expenses and necessitating identification of experts in whom the client has confidence. LEO discovery also makes for interesting gymnastics during depositions and hearings where the parties take turns being excused from the proceedings.

## Pros and Cons

The decisional law in trade secret cases is not linear. Many courts have reviewed the UTSA and many outlier decisions exist on most topics. One formidable challenge is the preemption defense that whipsaws a plaintiff between claims that the secrets are not confidential enough to qualify as UTSA trade secrets and the defense that the UTSA preempts any other claims when confidential business information is at issue. See R.S.A. 350-B:7. In a 2006 decision known as *Mortgage Specialists, Inc. v. Davey*, the NH Supreme Court examined the scope of UTSA preemption and held that the UTSA preempts common law claims arising from the theft of information that is confidential but not trade secret. Claims that do not require a factual showing beyond that which forms the basis of the trade secret misappropriation claim are preempted. In the wake of this decision, the putative trade secrets plaintiff must be careful to craft a lawsuit that contains both allegations based on defensible trade secrets claims and companion causes of action that fairly allege facts beyond the allegations that support the trade secret claims.

While complex and potentially expensive, trade secret litigation is often unavoidable because the business is so dependent upon maintaining the confidentiality of the information at issue that it cannot ignore the misappropriation. Plaintiffs have some advantages, however. Trade secrets litigation frequently focuses on the preliminary injunction request for which a plaintiff—who decides where and when to commence suit—can better prepare. It is also common for parties represented by reasonable and objective counsel to settle after the courts' injunction ruling because that ruling typically places one party at a significant disadvantage going forward. There are also fee-shifting and in some cases multiple damages provisions in the UTSA and statutes providing the basis for companion claims. See, e.g., the Consumer Protection Act, R.S.A. 358-A, the Copyright Act, 17 U.S.C. § 101, et seq., and the Lanham Act, which covers trademark infringement and false advertising, 15 U.S.C. § 1051, et seq. The UTSA has a provision for fee shifting when claims are made in bad faith. See R.S.A. 350-B:4.

Readers wishing to learn more should consult *Milgrim on Trade Secrets* and Sections 39 through 45 and the comments of the Restatement (Third) of Unfair Competition. Pleadings containing extended treatment of common trade secret legal issues may also be found on file at the Rockingham Superior Court in *Frank Hill Associates, Inc. v. Sequest Technologies, et al.*, Docket No. 10-E-35, which the authors litigated.

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