

COMMENT

Trade Secret Law and the Changing Role of Judge and Jury

Two recent Supreme Court decisions, *Bell Atlantic Corp. v. Twombly*¹ and *Ashcroft v. Iqbal*,² appear to have changed substantially the standard by which courts review motions to dismiss at the pleadings stage. In these two decisions, the Supreme Court has emphasized that judges should scrutinize pleadings thoroughly to weed out plaintiffs bringing unmeritorious suits. Although this revised standard was set forth in *Twombly*, the 2009 *Iqbal* decision was probably more significant. Since *Twombly* involved the relatively complex and specialized field of antitrust, it was initially unclear whether the Court intended to extend its holding elsewhere. *Iqbal* answered that question, confirming that the Court intends the new standard to apply to litigation in other areas.³ Judges, in other words, have been put on notice to be more aggressive about throwing out claims of all types at the pleadings stage.

Although *Iqbal* settled that issue, it left others in its wake. One particularly important question is whether the Court's new attitude about motions to dismiss holds significance beyond the pleadings stage. Read broadly, the Court's recent decisions indicate a changing attitude about the allocation of authority between judge and jury. The Court has not addressed whether this changing judicial role should be limited to the pleadings stage. In *Twombly* and *Iqbal*, the Court indicated that judges should dismiss more cases at the earliest stages of trial. A reasonable extension of this view would be that judges should also be more aggressive about dismissing unmeritorious claims as litigation progresses.

1. 550 U.S. 544 (2007).

2. 129 S. Ct. 1937 (2009).

3. See *infra* notes 23-24, 28-30 and accompanying text.

If judges are going to be more critical of unmeritorious plaintiffs, then this Comment suggests that the law governing intellectual property—specifically that of trade secrets—would be a good place to start. While the Supreme Court has made no recent statements regarding summary judgment and trade secret law, the circuit courts generally have held that judges should be quite hesitant to dismiss plaintiffs' trade secret claims at the summary judgment stage. This attitude has contributed to costly litigation that is open to abuse by unmeritorious litigants. Since concern about the costliness of unmeritorious suits has been the primary motivating factor for the Court's recent shift,⁴ trade secret doctrine is especially in tension with the current Court's views on the role of the judge. This Comment thus argues that judges in trade secret cases should be more willing to dismiss claims than in the past.

The Supreme Court's recent rulings regarding intellectual property suggest that the Court is, generally speaking, interested in the allocation of authority at the summary judgment stage in this area of law. Furthermore, abusive litigation in intellectual property is particularly troublesome, allowing wealthy holders of property to deter less wealthy individuals with the mere threat of litigation.

I. THE STANDARD FOR SUMMARY JUDGMENT IN TRADE SECRET LAW

Trade secret law has been acknowledged by both commentators and courts as extraordinarily important to the modern American economy.⁵ The doctrine protects against the misuse of confidential business or technical information by unfair or unreasonable means.⁶ The doctrine is implicated when confidential information is misappropriated by means of theft or a breach of a duty of confidentiality. When an owner of information successfully brings suit for a violation of trade secret law against those who use the information improperly,

4. See *infra* notes 24-27 and accompanying text.

5. See, e.g., *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 482 (1974) (noting "the importance of trade secret protection to the subsidization of research and development and to increased economic efficiency"); *Reingold v. Swiftships Inc.*, 210 F.3d 320, 322 (5th Cir. 2000) (noting "the importance of state trade secrets law to interstate business"); *United States v. Aleynikov*, No. 10 Cr. 96 (DLC), 2010 WL 3489383, at *6 (S.D.N.Y. Sept. 3, 2010) (noting "the increasing importance of intangible assets like trade secrets in the high-technology, information age" (internal quotation marks omitted) (citing H.R. Rep. No. 104-788, at 4-7 (1996))); Gale R. Peterson, *Trade Secrets in an Information Age*, 32 HOUS. L. REV. 385, 386-87 (1995) (explaining the importance of trade secrets for securing property rights).

6. ROBERT P. MERGES, PETER S. MENELL & MARK A. LEMLEY, *INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE* 22 (4th rev. ed. 2007).

courts award the owner damages and/or injunctions against future use or disclosure.⁷ In order to qualify for this protection, however, the trade secret owner must show that it possesses valuable information and has taken reasonable steps to maintain the confidentiality of the secret.

In practice, trade secret claims are considered particularly onerous for litigants, because the inquiry is especially fact-intensive. This fact-intensiveness is true of intellectual property cases generally, as the matters being litigated tend to be complex and technical.⁸ As a result, it is notoriously hard for defendants to have intellectual property cases resolved at the summary judgment stage, as such cases almost always present at least an arguable issue of material fact after discovery.⁹

The nature of the inquiry in trade secret law also makes such claims particularly difficult for the defense. In most jurisdictions, whether information qualifies as a trade secret is determined by a multipronged, factually intensive test.¹⁰ Furthermore, to demonstrate that their use of the information was legally appropriate, defendants typically must make a showing not about their own behavior, but about the other party's failure to take reasonable steps to protect the trade secret.¹¹ The standard of "reasonableness" is especially contingent on facts because the judgment as to whether additional precautions would have been so costly as to be unreasonable will vary according to the value of the secret being protected.¹² If judges are reluctant to exercise their own judgment at the summary judgment stage, then there will often be a factual dispute sufficient to warrant a trial.

In light of this fact-based inquiry, judges have set an especially high bar for summary judgment in trade secret cases. The textbook citation for the standard comes from Judge Posner in *Rockwell Graphic Systems, Inc. v. DEV Industries*,

7. *Id.* at 28.

8. Michael J. Meurer, *Controlling Opportunistic and Anti-Competitive Intellectual Property Litigation*, 44 B.C. L. REV. 509, 531 (2003).

9. See, e.g., 6 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 32:120 (2010) (discussing various circuits' approaches to summary judgment in trademark cases); see also Robert C. Nissen, *The Art of the Counterclaim*, INTELL. PROP., May 7, 2001, at 64 (discussing the difficulty of litigating patent cases).

10. See, e.g., *Sw. Stainless, LP v. Sappington*, 582 F.3d 1176, 1189 (10th Cir. 2009); *Doebler's Pa. Hybrids, Inc. v. Doeblner*, 442 F.3d 812, 829 (3d Cir. 2006).

11. See Robert G. Bone, *A New Look at Trade Secret Law*, 86 CALIF. L. REV. 241, 244 (1998).

12. See 1 ROGER M. MILGRIM, MILGRIM ON TRADE SECRETS § 1.04, at 1-308.20 (2008); see also, e.g., *Elmer Miller, Inc. v. Landis*, 625 N.E.2d 338, 342 (Ill. App. Ct. 1993) (noting that what constitutes "reasonable steps" will vary).

*Inc.*¹³ Rockwell Graphics, a manufacturer of printing press parts, filed suit against competitor DEV, alleging that the defendant could only have produced similar parts with Rockwell's diagrams detailing the method of manufacture, a trade secret.¹⁴ DEV countered with evidence that Rockwell had routinely supplied copies of manufacturing diagrams to subcontractors and had made little effort to get these copies back or to limit further copying, undermining Rockwell's claim that it took reasonable precautions to keep the information secret.¹⁵ The district court judge dismissed the claim on summary judgment, finding that Rockwell presented contrary evidence only in a "transparent attempt to create a chimerical issue of fact."¹⁶ According to Judge Posner, even this minor factual dispute was enough to preclude summary judgment: "[O]nly in an extreme case can what is a 'reasonable' precaution be determined on a motion for summary judgment, because the answer depends on a balancing of costs and benefits that will vary from case to case."¹⁷ The court thus remanded the case back to the district court for trial.

Courts in other circuits have adopted *Rockwell Graphics*-like standards and have been firm in overruling district courts that are too aggressive in dismissing cases.¹⁸ As a result, so long as there is some evidence that the plaintiff tried to keep the information secret, the issue is considered one "for the jury" – making summary judgment all but impossible.¹⁹

II. THE COURT'S REALLOCATION OF AUTHORITY BETWEEN JUDGE AND JURY

For fifty years, courts were instructed to review pleadings under the very lenient standard of *Conley v. Gibson*.²⁰ Under *Conley*, a complaint "should not

13. 925 F.2d 174 (7th Cir. 1991).

14. *Id.* at 175-76.

15. *Id.* at 177-78.

16. *Rockwell Graphic Sys., Inc. v. DEV Indus., Inc.*, 730 F. Supp. 171, 172 (N.D. Ill. 1990).

17. *Rockwell Graphic Sys.*, 925 F.2d at 179.

18. See, e.g., *Niemi v. NHK Spring Co.*, 543 F.3d 294 (6th Cir. 2008); *AT&T Commc'ns of Cal., Inc. v. Pac. Bell*, No. 99-15668, 2000 U.S. App. LEXIS 23215 (9th Cir. Sept. 8, 2000). *But see* *Tubos de Acero de Mex., S.A. v. Am. Int'l Inv. Corp.*, 292 F.3d 471, 485 (5th Cir. 2002) (dismissing trade secret claims at summary judgment because plaintiff's "limited attempts, if any, at secrecy do not amount to reasonable effort").

19. *Learning Curve Toys, Inc. v. PlayWood Toys, Inc.*, 342 F.3d 714, 725 (7th Cir. 2003).

20. See 5 CHARLES ALAN WRIGHT & ARTHUR R. MILLER, *FEDERAL PRACTICE AND PROCEDURE: CIVIL* § 1202 (3d ed. 2004).

be dismissed . . . unless it appears beyond doubt that the plaintiff can prove no set of facts in support of his claim which would entitle him to relief.”²¹

Now, however, the Supreme Court has indicated that judges should scrutinize pleadings more thoroughly. In *Twombly*, the Court emphasized that judges should examine the “plausibility” of the claims made in the complaint and require plaintiffs to allege specific facts in support of their arguments for liability.²² In *Iqbal*, the Court explained that a court should check for plausibility at the pleadings stage by “draw[ing] on its judicial experience and common sense.”²³

Technically, the *Iqbal* and *Twombly* decisions have no direct relevance to the law of summary judgment because they deal with the earlier pleadings stage of litigation. However, a court newly invigorated to cut down on unmeritorious lawsuits might not stop at the pleadings stage. The underlying reason for emboldening judges to dismiss claims at the early stages of litigation suggests no stark distinction between summary judgment and motions to dismiss. The Court has long cited protecting defendants from the cost of unnecessary litigation as a primary purpose of summary judgment.²⁴ In its most recent cases, the Roberts Court has relied on this same rationale—the cost of litigation—for altering the motion to dismiss standard. In *Twombly*, Justice Souter emphasized how “expensive” litigation can be in the antitrust context and worried that this expense “will push cost-conscious defendants to settle even anemic cases.”²⁵ Likewise, Justice Kennedy stressed the importance of the “expenditure of valuable time and resources” due to litigation in *Iqbal*.²⁶ Because increased attentiveness to the high cost of litigation has motivated the Court to adopt a stricter standard at the pleadings stage, it raises the possibility that courts might be similarly encouraged to be more aggressive at the summary judgment stage.²⁷

21. *Conley v. Gibson*, 355 U.S. 41, 45-46 (1957).

22. *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 555-56 (2007).

23. *Ashcroft v. Iqbal*, 129 S. Ct. 1937, 1949-50 (2009).

24. See, e.g., *Celotex Corp. v. Catrett*, 477 U.S. 317, 327 (1986) (citing concerns about “unwarranted consumption of public and private resources”).

25. 550 U.S. at 559.

26. 129 S. Ct. at 1953.

27. *Iqbal* provides strong evidence that the Court intends to alter permanently the motion to dismiss standard. 129 S. Ct. at 1959-60 (Souter, J., dissenting) (characterizing Court’s treatment of *Twombly*). But see *Smith v. Duffey*, 576 F.3d 336, 340 (7th Cir. 2009) (Posner, J.) (suggesting that the context of *Iqbal*, a suit against high-ranking government officials, is, like antitrust, somewhat “special”).

On the other hand, to the degree that *Twombly* reflected concerns exclusively about discovery, there may not be cause to extend the reasoning of those cases to summary judgment, which occurs after discovery is complete. The *Iqbal* case, however, sows doubt about that conclusion. The Court recognized that discovery in that case would be “minimally intrusive,” but overriding concerns about the cost of frivolous litigation nonetheless persuaded the Court to dismiss the claim. This suggests that the Court is less concerned with expensive discovery per se than with potentially abusive litigation more generally.²⁸

Indeed, beyond their effect on motions to dismiss, these two most recent cases are arguably just as significant for what they say about the Justices’ views on the role of judge and jury generally. The opinions may reflect a fairly revolutionary step—away from “liberal” civil procedure focused on ensuring access to courts and toward civil procedure concerned with the protection of defendants from plaintiffs via aggressive judging.²⁹ At least one scholar has suggested that *Twombly* be construed “not so much as a pleading decision but rather as a court access decision.”³⁰

On the whole, it is too soon to tell if *Twombly* and *Iqbal* have broad implications for civil procedure generally or if their impact will be limited to motions to dismiss. If, however, we are to take the Court at its word, then areas of law in which litigation costs are most problematic would be a logical place to extend the Court’s rulings.

III. SPECIAL RELEVANCE OF RECENT CASES TO TRADE SECRET LAW

Encouraging judges to dismiss more trade secret cases at summary judgment would be consistent with the Court’s recent precedent. As several commentators have noted, abusive trade secret litigation is considered particularly onerous.³¹

One area of great concern is the strategic use of trade secret litigation by companies against employees who leave to form competing businesses.³² These

28. *Iqbal*, 129 S. Ct. at 1954.

29. See A. Benjamin Spencer, *Iqbal and the Slide Toward Restrictive Procedure*, 14 LEWIS & CLARK L. REV. 185 (2010).

30. Robert G. Bone, *Twombly, Pleading Rules, and the Regulation of Court Access*, 94 IOWA L. REV. 873, 876 (2009).

31. See Bone, *supra* note 11, at 272-79.

32. See Ronald J. Gilson & Robert H. Mnookin, *Disputing Through Agents: Cooperation and Conflict Between Lawyers in Litigation*, 94 COLUM. L. REV. 509, 536 (1994).

lawsuits have the potential to stifle innovation and growth in the American economy by dampening employee mobility.³³

Furthermore, the abuse of these lawsuits by former employers may be particularly effective against companies focused on emerging technologies. A company engaging in technological innovation will find it especially easy to generate an unmeritorious lawsuit against a former employee because its business model makes use of an abundance of information that has value precisely because it is unknown to competitors.³⁴ Even if the former employee did not have access to a particular piece of information, an employer can generate an abusive suit that is difficult to disprove immediately.³⁵ The mere threat of a successful trade secret lawsuit often is enough to kill a successful start-up, as the prospect of a suit can cut off the supply of venture capital.³⁶ There is substantial evidence suggesting that such litigation has inhibited the growth of new technologies and corresponding economic growth in certain regions of the country.³⁷

Beyond the specific situation of companies and their former employees, most businesses dealing with some element of modern technology have much to fear from trade secret litigation. The threat is present whenever one company has an agreement to use the technology of another for a limited period of time.³⁸ When such an agreement terminates, the contract typically stipulates that the company will cease using the technology altogether. However, so long as the company remains in business and continues to market products, it is often at least arguable that the company is still making use of the formerly licensed technology in some fashion.³⁹ In the modern economy, few technology companies of any size can operate without relying on some technologies generated by other companies. As one intellectual property trade

33. See Bruce Alan Kugler, *Limiting Trade Secret Protection*, 22 VAL. U. L. REV. 725, 725 (1988).

34. See Charles T. Graves & James A. DiBoise, *Do Strict Trade Secret and Non-Competition Laws Obstruct Innovation?*, 1 ENTREPRENEURIAL BUS. L.J. 323, 338 (2006).

35. See *id.* at 339.

36. See Michael A. Epstein & Stuart D. Levi, *Protecting Trade Secret Information: A Plan for Proactive Strategy*, 43 BUS. LAW. 887, 900 (1998); Alexander E. Silverman, *Intellectual Property Law and the Venture Capital Process*, 5 HIGH TECH. L.J. 157, 159-60 (1990).

37. See Ronald J. Gilson, *The Legal Infrastructure of High Technology Industrial Districts*, 74 N.Y.U. L. REV. 575, 594-619 (1999).

38. See Jay Dratler, *Trade Secret Law: An Impediment to Trade in Computer Software*, 1 SANTA CLARA COMPUTER & HIGH TECH. L.J. 27, 44-52 (1985) (describing uncertainty in trade secret litigation regarding computer software and its implications for software licensing).

39. See Richard Linn & Michael D. Bednarek, *US Trade Secrets—An IP Manager's Guide*, 47 MANAGING INTELL. PROP. 38, 41 (1995).

publication states, “[I]t is almost inevitable that some trade secret problems will arise.”⁴⁰

In addition to the potential for abuse, there is also ample evidence that trade secret claims are especially costly to litigate, a factor that the Court cited in *Twombly* and *Iqbal* and that Judge Posner himself has highlighted in commentary on these pleadings cases.⁴¹ The fact-intensive nature of the trade secret inquiry means that the parties must bring a particularly sizable amount of evidence. For example, unlike in real property, for which the boundaries are relatively clear, the scope of what constitutes confidential information is almost always at issue in a trade secret claim.⁴² And, of course, the relative infrequency of judicial intervention, beyond encouraging unmeritorious claims to extort settlements, makes the cases that do proceed more expensive, as they are much more likely to drag on to final resolution by a jury than to be handled earlier by a judge.

Finally, for reasons similar to those cited above, defendants may have significant incentives to settle even unmeritorious trade secret lawsuits. The substantial uncertainty about the outcome of trade secret suits due to the fact-sensitive nature of the inquiry may push defendants toward settlement rather than to risk a negative result.⁴³ This phenomenon may be exacerbated by the fact that lenders may be unwilling to put forth capital until all claims are resolved.⁴⁴ Notably, the Court emphasized concerns about unfairly forced settlements in *Twombly*.⁴⁵

IV. HOW TRADE SECRET LAW MIGHT FOLLOW OTHER AREAS OF INTELLECTUAL PROPERTY

There are already signs that the standard for summary judgment in intellectual property cases is beginning to change at the Court’s behest. In both

40. *Id.*

41. *Smith v. Duffey*, 576 F.3d 336, 340 (7th Cir. 2009) (Posner, J.).

42. See Steven N.S. Cheung, *Property Rights in Trade Secrets*, 20 *ECON. INQUIRY* 40, 49-50 (1982).

43. See Miles J. Feldman, Comment, *Toward a Clearer Standard of Protectable Information: Trade Secrets and the Employment Relationship*, 9 *HIGH TECH L.J.* 151, 171 (1994) (noting that “companies do not know where they stand with respect to potential liability” in trade secret cases).

44. See Gary Myers, *Litigation as a Predatory Practice*, 80 *KY. L.J.* 565, 590-91 (1992).

45. *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 559 (2007) (“[T]he threat of discovery expense will push cost-conscious defendants to settle even anemic cases before reaching those proceedings.”).

the trademark and patent contexts, the Court has recently encouraged judges to be more aggressive in dismissing unmeritorious claims on summary judgment.

*KSR International Co. v. Teleflex, Inc.*⁴⁶ has been widely hailed as the most significant patent case in a generation for substantively changing the doctrine of “obviousness.”⁴⁷ However, in addition to the substantive shift, the Court also made a significant procedural alteration to summary judgment: whereas in the past the question of obviousness had been treated as a matter of fact for the jury to resolve, the Court suggested that judges should make the obviousness ruling as a matter of law.⁴⁸

*Wal-Mart Stores, Inc. v. Samara Brothers, Inc.*⁴⁹ indicated a similar change in the trademark arena. While the case introduced a substantive change in the law regarding what should be considered “distinctive” for the purpose of trademark protection, the case was also important for indicating that this determination should be made by a judge at the summary judgment stage.⁵⁰ In so ruling, the Court cited the (by-now) common refrain about defendants being harmed “not merely by successful suit but by the plausible threat of successful suit.”⁵¹ Indeed, beyond the shift in intellectual property doctrine, *KSR* and *Samara Brothers* may be significant, but underappreciated, as a sign that the Court’s more restrictive attitude toward civil procedure has already, in fact, been extended beyond the pleadings stage. Trade secret law, this Comment has argued, would be a particularly good area for this trend to continue.

To reduce the incentive for abusive trade secret suits, courts would not need to alter the substantive doctrine. Rather, courts would simply follow the model of *KSR* and *Samara Brothers*, shifting the allocation of decisionmaking authority between judge and jury. When the parties largely agree about what precautions the holder of the trade secret took to keep the information confidential, judges should be willing to decide, as a matter of law on summary judgment, whether those precautions were reasonable enough to warrant trade secret protection rather than leaving the reasonableness determination to trial.

46. 550 U.S. 398 (2007).

47. See, e.g., Justin Lee, *How KSR Broadens (Without Lowering) the Evidentiary Standard of Nonobviousness*, 23 BERKELEY TECH. L.J. 15, 34 (2008).

48. *KSR*, 550 U.S. at 426-27; see Meng Ouyang, Note, *The Procedural Impact of KSR on Patent Litigation*, 6 BUFF. INTELL. PROP. L.J. 158, 159-61 (2009).

49. 529 U.S. 205 (2000).

50. Graeme W. Austin, *Tolerating Confusion About Confusion: Trademark Policies and Fair Use*, 50 ARIZ. L. REV. 157, 159 n.10 (2008); see also Meurer, *supra* note 8, at 531-32.

51. 529 U.S. at 214.

Of course, in some cases the facts will be sufficiently disputed that summary judgment will remain impossible.

Applying this standard to the *Rockwell Graphics* case is instructive. There, the defendant presented “ample evidence of dissemination” of the information in question.⁵² Even though Rockwell presented a small amount of testimony to the contrary, the “essentially uncontradicted evidence” undermined Rockwell’s contention that the information was a sufficiently guarded trade secret.⁵³ The court of appeals should simply have accepted the district court judge’s determination that the factual dispute was “chimerical”⁵⁴ and allowed her to dismiss the claim. A judge should have the authority to dismiss a claim with nearly—albeit not entirely—undisputed facts, even if the plaintiff can arguably generate some contention.

CONCLUSION: THE POLITICS OF PROCEDURE IN INTELLECTUAL PROPERTY

The identities of the parties, as well as the nature of the claims, in *Twombly* and *Iqbal* made the tint of those decisions politically conservative. *Twombly* was an antitrust case filed by plaintiff consumers against telecommunications corporations, while *Iqbal* was a constitutional tort claim filed by a person detained by the federal government on terrorism-related grounds. It is perhaps not surprising then that the substantive doctrinal shift indicated by those cases—that judges should use “common sense and experience” to dismiss bad suits—has been criticized as reflecting the interests and biases of wealthy elites.⁵⁵

Interestingly, however, the shift toward more restrictive procedure in intellectual property cases would probably have the opposite effect. Plaintiffs most likely to abuse intellectual property litigation are “big fish” companies trying to maintain market share.⁵⁶ Whereas many abusive lawsuits target deep-pocketed defendants from whom plaintiffs seek to extort settlement, the threat of litigation itself may enable large corporations to bully start-ups in intellectual property cases. Likewise, to the extent that employers use trade secret litigation to prevent the mobility of individual employees, more

52. *Rockwell Graphic Sys., Inc. v. DEV Indus., Inc.*, 730 F. Supp. 171, 172 (N.D. Ill. 1990).

53. *Id.*

54. *Id.*

55. Spencer, *supra* note 29, at 201.

56. See Meurer, *supra* note 8, at 509-10.

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restrictive procedure would favor less wealthy individuals over corporate interests.

Shifting intellectual property doctrine would thus be an opportunity for the Court's conservative majority to demonstrate that their concern is with the fair application of law regardless of the identity of the parties. In any case, it would be unwise for those who have voiced such opposition to *Twombly* and *Iqbal* to be similarly hostile to a shift in trade secret law. Such a change would do a lot of good.

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