Cases of Interest:

Trade Secret Found in an "Intuitive Flash of Creativity"

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In what may present a significant change in trade secret cases, the Seventh Circuit recently extended protection to trade secrets that occur in an "intuitive flash of creativity," and for minimal cost. In Learning Curve Toys Inc. v. PlayWood Toys Inc., 342 F.3d 714, 67 USPQ2d 1801 (7th Cir. 2003) (66 PTCJ 512, 8/29/03), the Seventh Circuit reversed the district court, reinstated the jury's verdict, and remanded for a jury trial on exemplary damages and for Plaintiff's recovery of attorneys' fees — all based on the clickity-clack sound a toy train makes while running over a wooden track.

PlayWood, a wooden toy manufacturer, was approached by Learning Curve to assist in design/manufacturing of "Thomas the Tank Engine" toy train products. When the parties met at PlayWood's facility to discuss arrangements, they had an oral confidentiality agreement for the designs discussed at that meeting. Learning Curve's sales for their current model railroad track were "dismal," so they asked PlayWood's designer for some ideas.

The designer suggested a more realistic-looking track that made noise, and he quickly produced a noise-making demo by cutting grooves in the rails. PlayWood said if they had a production contract from Learning Curve, they would call it the "Clickity-clack Track." PlayWood allowed Learning Curve to take the demo track, but neglected to ask for a written confidentiality agreement.

Despite several meetings, the parties did not reach an agreement. PlayWood did not return to efforts to improve the railroad track until the following year, and then discovered Learning Curve was selling tracks under the name "Clickity-Clack Track." The track was designed with the same cut of parallel grooves in the track, and marketed as being more realistic for children due to the noise. PlayWood sent a cease and desist letter, and Learning Curve responded by seeking a declaratory judgment of their ownership in the track concept. The new track design provided an enormous boost in Learning Curve sales (they went to $20 million in the first quarter of 2000).

District Court Denies Trade Secret Claim. PlayWood obtained a jury verdict in its favor on the primary issue of whether PlayWood's design of a noise-making toy railroad track is a protectable trade secret misappropriated by Learning Curve. The jury awarded an 8% royalty on a license that would have been negotiated but for

misappropriation. The District Court, however, rejected the jury's verdict, and granted a Judgment as a Matter of Law in favor of Learning Curve, finding insufficient evidence to support a protectable trade secret in the railroad track. In addition to traditionally required elements to establish a trade secret claim, the court determined that PlayWood did not have a trade secret because PlayWood failed to guard the secrecy of its concept and, more importantly, expended virtually no time, effort or money to develop the concept. The court determined as a matter of law that PlayWood's investment of money and time was so trivial that it could not be considered a trade secret.

Appellate Court Grants Trade Secret Protection. The issue on appeal was whether the designer's idea was a trade secret. The Seventh Circuit acknowledged that PlayWood had invested little money and time developing the concept, but ruled that a trade secret could exist even with that nominal investment.

The Seventh Circuit considered the traditional factors in assessing whether PlayWood's design constituted a trade secret, with an emphasis on the measures taken to guard secrecy of the information, and the amount of time, effort, and money expended in developing the information.

The Court found sufficient evidence of the measures to guard the secrecy of the concept, as PlayWood took "actions which are reasonable under the circumstances." The court also found it reasonable for the jury to find that the oral confidentiality agreement was sufficient on this point.

On the flip side, there was *not* substantial evidence from which the jury could have found that PlayWood expended a significant amount of time, effort, and money on developing the concept. In a potentially important departure from precedent, however, the appellate court decided this factor was given too much weight by the district court.

Historically, Illinois courts have emphasized the importance of developmental costs. But none of those cases involved the sort of imaginative and novel concept used in this case. The Seventh Circuit noted that the cases emphasizing developmental costs concern compilations of data, such as customer lists, and that it makes sense in that context to require the expenditure of significant time and money because there is nothing original or creative about the alleged trade secret. In contrast, toy designers, like many artistic individuals, have intuitive flashes of creativity:

> Often that intuitive flash is, in reality, the product of earlier thought and practice in an artistic craft. We fail to see how the value of PlayWood's concept would differ in any respect had [the designer] spent several months and several thousand dollars creating the noise-producing track. Accordingly, we conclude that PlayWood's lack of proof on this factor does not preclude existence of a trade secret.

Lessons learned. Spending time and money still remain fundamental to prove a trade secret where the analysis is primarily fact-based such as a customer list. For the truly innovative, however, perhaps all that is needed is an intuitive flash of creativity and some chicken-scratches on a restaurant napkin.