

Breach of Non-Disclosure Agreement Costs Sears \$25 Million

By Lisa Fleming, Partner

Companies often ask, Are non-disclosure agreements worth the paper they are written on? In a case decided on May 27, 2008, Sears, Roebuck & Co. found out just how costly it can be to ignore NDA obligations, getting hit with a \$25 million judgment for misappropriating trade secret and confidential information belonging to another company.

In *RRK Holding Company v. Sears, Roebuck & Co.*, the federal district court in the Northern District of Illinois upheld a jury verdict awarding \$25 million to the owners of a small tool company because of breach of an NDA. The award included \$8 million in punitive damages.

RRK Holding Company was the manufacturer of a spiral saw sold under the “Roto Zip” brand, which gained a national following in the 1990s. RRK sold its product to Sears, Home Depot, Lowe’s and other home improvement and hardware stores, as well as on cable television’s Home Shopping Network.

Recognizing the product as a major breakthrough in the tool industry, Sears approached RRK in 1997 about manufacturing a next-generation spiral saw under the Sears private label brand, Craftsman.

In 1999, RRK entered into a non-disclosure agreement with Sears to produce a spiral saw to be sold exclusively at Sears. The NDA prohibited the unauthorized use of any confidential information by the other party. During negotiations, RRK disclosed the prototype of a next-generation spiral saw, which included the concept of placing the saw in a plunge base router, an innovation that vastly improved performance.

Negotiations soon broke down over price, and RRK never manufactured the saw for Sears. RRK continued, however, to sell its existing product to retailers and on television but kept secret its plans for its next-generation spiral saw until it introduced the product in 2001 on a QVC television show.

Within two weeks of RRK’s product introduction, Sears introduced a new spiral saw under its Craftsman brand. The new tool combined the spiral saw and plunge base router that RRK had confidentially disclosed to Sears in 1999. Adding insult to injury, Sears’s lower prices diverted sales from RRK to Sears.

RRK’s suit claimed that the information it provided to Sears, including demonstrative exhibits, working prototypes and marketing plans, were all trade secrets subject to protection under the NDA and the Illinois Trade Secrets Act. RRK claimed that it had secured the trade secret status of its information through company confidentiality policies, marking key documents as “confidential” and obtaining protective agreements with third parties like Sears.

Although Sears argued that RRK’s saw/router combination fell within the general knowledge of the power-tool industry and thus did not qualify as a trade secret, the jury found that it was indeed innovative, and that Sears’s disclosure of the combination tool to its manufacturer breached the NDA.

The jury’s verdict supports the old saw: The goal of protecting your trade secrets is worth the often tedious effort of establishing and enforcing confidentiality policies, restricting access to company files, marking relevant documents as “confidential” and seeking appropriate agreements with third parties. ✨

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