INTELLECTUAL PROPERTY

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Defending Trade-Secret Claims

How companies can best protect themselves

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MOST EXECUTIVES ARE AWARE OF THE PAIN and expense of patent-infringement litigation, which can often cost a company between $3 million and $5 million just in defense costs. But many may not realize that defending claims involving trade secrets can often pose just as big a problem. Confronting a trade-secret claim—even a completely meritless one—can be highly disruptive and expensive for your company.

Why? Like patent cases, trade-secret cases are easily filed but hard to defend. They often present factually complex, highly technical issues that can be difficult for judges and juries to sort through and understand. Furthermore, these cases often are brought in state courts,

EXECUTIVE SUMMARY

Smart companies can minimize the inherent risks of potential trade-secret claims by using key tools such as including defensive provisions in confidentiality agreements with their new employees and consultants as well as in their nondisclosure agreements with outside parties and businesses. When litigation is unavoidable, following two basic strategies may help reduce risks and shorten the legal wrangling: (1) insist on a clear and specific definition of the alleged misappropriated secret at the outset of the dispute to define and limit the case, and (2) attempt to show that the alleged misappropriated information is publicly available, which may lead to summary judgment.

which may be far from the company's place of business, and be unfamiliar and sometimes unpredictable venues for companies and their corporate counsel. In addition, the fact-intensive nature of these cases means that it is difficult to get a summary judgment, particularly with the procedural summary judgment limitations in many states, such as California.

For all these reasons, you need to focus on how to avoid—or, if necessary, be prepared to effectively defend against—trade-secret claims. Companies generally focus on the steps necessary to take to protect their own trade secrets, but the risks and strategies for defending against such claims are frequently ignored. Being mindful of a few simple guidelines can help you avoid claims before they happen—and can also make a big difference in defending against them if they do arise. Companies that follow these strategies can minimize their risks, or, at the very least, put themselves in the best possible position to deal with such claims when they are asserted.

Trade-secret claims most frequently arise in two situations: first, when a company hires new employees or consultants who may have had access to another company's confidential or proprietary information; and second, when a company's representatives meet with or engage in business discussions with people outside the company who might have access to others' confidential or trade-secret information.

Nondisclosure agreements should be carefully crafted to include defensive provisions.

EMPLOYEE CONFIDENTIALITY AGREEMENTS

Perhaps the most typical trade-secret litigation case occurs when employees or consultants who come to work for a new company were formerly employed by a competitor, who then sues claiming that their trade secrets are being disclosed or used. To prevent such accusations, employers should require confidentiality agreements as a condition of employment. In addition to the typical agreement provisions that protect the hiring company's trade secrets, explicit defensive provisions should be included that strictly prohibit the use of others' confidential information as well as state the hiring company's policies against any use of such information.

Companies hiring a new worker should also ask whether the new hire's previous employer required the employee to sign a confidentiality agreement. If so, the hiring company should include custom-drafted clauses in its employment agreements stating that the new employer is aware of and respects these provisions and requires that they be strictly complied with.

Take the time to instruct employees on the purpose and importance of these provisions. Periodic meetings, internal communications, and statements of policy in personnel manuals are good ways to ensure that there is no improper disclosure or use of trade-secret information and to remind employees about not using other companies' confidential information. In the event of litigation, such steps also demonstrate the company's good faith intention not to misappropriate the confidential information of others.

BUSINESS RELATIONSHIPS

Employees are not the only people with access to a company's confidential information. Let's say that Company A and Company B are considering a joint business venture. In the course of negotiations, they will typically engage in discussions in which they exchange information that may include confidential material. These types of business discussions, particularly when they don't conclude in a new business relationship, frequently give rise to trade-secret claims. That's why smart companies will make every effort to protect themselves against future trade-secret claims when communicating with outside businesses in circumstances where they might be the recipient of information that could potentially be considered trade secrets of another company.

The best tool in these situations is a carefully drafted nondisclosure agreement (NDA). NDAs are typically signed by representatives of businesses or customers engaged in business discussions or relationships that might involve an exchange of confidential information. Companies should insist on NDAs that not only provide protection against confidential and trade-secret information that they might disclose but also contain defensive provisions designed to protect against and minimize the possibility of subsequent claims of trade-secret misappropriation if they receive others' information.

Key defensive NDA provisions to consider including if your company may be the recipient of information from others are: a carefully crafted, narrow definition of what constitutes "confidential" information. Then the company can more easily identify, limit, and manage the information that will be subject to the confidentiality obligations of the agreement. For instance, the NDA may state that only those things clearly identified in writing and labeled as confidential are subject to confidentiality obligations. Avoiding the problems and risks created by a "he said, she said" dispute later by limiting the coverage of the agreement to just labeled written information can go a long way toward protecting against subsequent claims. It is also important to include specific limitations on the time period—for example, one year—that the confidentiality obligations will be in place. Including a termination date for the confidentiality obligations, preferably as early as possible, is another key defensive provision that will limit a company's exposure.

The terms should include an explicit disclaimer of any implied obligation of the company that may exceed the agreement's confidentiality obligations. Such a provision should expressly prevent the disclosing party from limiting the receiving party's right to independently develop products or technology, or from restricting the receiving party's freedom to assign employees to related projects.

Taking the time to carefully craft such provisions and tailor them to the specific situation is important. The nature of the provisions will vary significantly depending on the company's role and the circumstances surrounding the particular business relationship with the other party. Companies can also conduct internal training and seminars on defensive strategies, or disseminate emails and memos on the issues that arise in such business discussions and the use of NDAs. Employees who are clear on the procedures in dealing with the potential receipt of confidential information in meetings and business discussions with those outside the company are much less likely to engage in conduct that may increase the likelihood of subsequent claims.

IDENTIFY THE TRADE SECRET

No matter how hard you try to avoid litigation, it is sometimes inevitable. If your company has been sued for alleged trade-secret misappropriation, here are a couple of key strategies for defending yourself.

First, and most important, you should take advantage of procedural provisions, if they exist, that require the claimant to specifically identify the trade-secret information that has allegedly been misappropriated. Most courts will require that a plaintiff do so very early in a case. For example, California Code of Civil Procedure § 2019.210 (formerly Civ. Proc. § 2019(d)) requires a plaintiff to state its claimed trade secret "with reasonable particularity" before engaging in any discovery in support of the claim. (See, *Advanced Modular Sputtering, Inc. v. Superior Court* (132 Cal. App. 4th 826 (2005).)

Federal courts in California—which may, for example, have jurisdiction because of the diversity of citizenship of the parties involved—will typically look to and apply the provisions of this California statute.

In most cases, plaintiffs prefer to avoid being pinned down at the outset, or they will maneuver to be vague in describing the alleged misappropriated secret, hoping to wait until discovery to find out the details of the defendant's actions and only then craft their approach. Typically, the defending attorney must make a motion to force the plaintiff to specify the alleged misappropriated secret clearly. This is not at all unusual, even after obtaining an initial order from the court requiring a specific statement to file a second motion to compel the required specificity.

Identifying the alleged stolen secret at the outset is critical for the defendant, because it drives the defense strategy and may provide a basis to limit the scope of discovery. It may also be critical in developing a strategy to obtain a summary judgment. Though it is usually quite difficult for a defendant to obtain summary judgment in a trade-secret case, it is possible in some cases. Often, victory hinges on how the alleged stolen trade secret has been defined and whether the defendant can rely on this definition to show that the information in question is not a secret at all.

AIM FOR SUMMARY JUDGMENT

Part of what makes trade-secret cases difficult and expensive to defend is that they are typically highly factual, and those facts are usually heavily disputed. Many times they may also be dependent on circumstantial evidence. Did the people or company in question actually acquire the trade-secret information? Did they acquire it through improper means, and did they know—or have reason to know—this? Did anyone use the trade secret? If so, how was it used? Summary judgment will not be granted if there are material factual disputes about these questions. No matter how strong the defense evidence is, the prospect of a jury trial to resolve such questions in a factually and technically complicated trade-secret case is never good news for the defendant.

One of the most effective vehicles for a defendant to obtain summary judgment in a trade-secret case is to focus on the plaintiff's requirement to show that the alleged misappropriated trade secret is "not generally known to the public" or was not otherwise "readily ascertainable." Once the alleged misappropriated trade secret is identified by the plaintiff, the defendant should immediately begin to analyze and evaluate the possibility of obtaining summary judgment by arguing that the plaintiff cannot meet this requirement.

Even if you cannot obtain a summary judgment, a defendant can use the plaintiff's definition of the trade secrets at issue against it. Plaintiffs sometimes make the mistake of claiming, in effect, that "everything we do is a secret." Such broad definitions produce a weaker case than one based on a well-defined secret. It can create credibility problems for the plaintiff, such as by allowing the defendant to demonstrate that one or more of the supposed secrets does not present a valid claim, casting doubt on the entire case.

No company wants to face trade-secret claims, which are costly and can be difficult to defend. Clearly, it is much easier to take steps up front to protect against trade-secret claims than deal with litigation later. By using key tools such as the proactive approach of insisting on defensive provisions in employee confidentiality agreements and in NDAs, your company can go a long way in preventing these claims. And though litigation may sometimes be unavoidable, critical defensive strategies will give you a much greater chance of reaching a favorable resolution early in the process. First, requiring the plaintiff to clearly specify at the outset the alleged misappropriated trade secret at issue, and second, focusing on the possibility of a defense that the alleged secret information is publicly available information—rather than truly secret—can make it much easier to defend many trade-secret cases.

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