



TOP TRADE SECRETS LAWYERS 2022

PROTECTING “WHAT NOT TO DO” AS A NEGATIVE TRADE SECRET

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“Negative trade secrets” – i.e., secret know-how about what does not work – are generally protectable in California, but in practice have proven challenging for courts and litigants to discern. While a trade secret is a company’s intellectual property, an employee’s “general knowledge, skill, and experience acquired in his or her former employment” is not. *The Ret. Grp. v. Galante*, 176 Cal. App. 4th 1226, 1237 (2009). The concept of “negative trade secrets” sits uncomfortably between these two categories.

Consider Thomas Edison’s (possibly apocryphal) quote about his light-bulb experiments: “I haven’t failed, I’ve just found 10,000 ways that won’t work.” Imagine that Thomas Edison’s assistant quit and joined a competitor. It’s easy to understand the value of knowing those 10,000 failed attempts; that “negative know-how” would allow the competitor to start on attempt 10,001. But it’s much harder to understand how courts can protect these failed attempts as negative trade secrets. Can a court really hold Edison’s assistant liable for not re-attempting what he knows won’t work? Must he re-try all 10,000 prior failures? Such an outcome would seem to contradict California’s public policy goals favoring innovation and employee mobility. See Cal. Bus. & Prof. Code §16600.

Judges have grappled with distinguishing a negative trade secret from general knowledge in various ways. Courts often scrutinize the breadth of negative trade secrets to determine if they seek to prevent others from competing in a particular field altogether. This appears in courts’ analysis of whether negative trade secrets have been identified with “sufficient particularity.” In one case, a court found that “Plaintiff’s designation of ‘technical know-how’ regarding what does and does not work in ... digital media management software is simply too nebulous a category of information to qualify for trade secret protection.” *Cinebase Software, Inc. v. Media Guar. Tr., Inc.*, 1998 WL 661465, at *12 (N.D. Cal. Sept. 22, 1998). The court criticized the plaintiff for failing to “identify any specific design routes,” but seeking instead to prevent defendants from designing any software at all. Id.

Negative trade secret claims most often succeed where the plaintiff identifies specific misappropriated material that includes negative knowledge. The Central District recently explained this distinction in a case where the plaintiff had failed to identify any protectable trade secrets (including negative ones) because it relied on “broad, catchall phrases to define its trade secrets.” *Calendar Rsch. LLC v. StubHub*,



Inc., 2020 WL 4390391, at *6 (C.D. Cal. May 13, 2020). The court pointed out that “[a] clear case of negative know-how involved pharmaceutical manufacturing, where avoiding previously failed formulas avoids the expense of costly research and trials,” and that “[i]n the software context, claims for negative know-how misappropriation require specific examples of the failed code or product that defendants misappropriated.” *Id.* at *9. But here, plaintiff asserted “negative know-how” as an inverse version of its broad positive trade secret. The Court thus found that “[u]nlike the drug cases or software cases mentioned above, there is no evidence of a failed virality model in this record,” *Id.* at *10, and thus no negative trade secret.

This specificity is likely what allowed Genentech’s claims to go forward in a recent pharmaceutical case. *Genentech, Inc. v. JHL Biotech, Inc.*, 2019 WL 1045911 (N.D. Cal. Mar. 5, 2019). Genentech included specific allegations that defendants “downloaded and provided to JHL hundreds of confidential Genentech documents filled with proprietary negative know-how.” *Id.* at *20. JHL’s defense that its protocols differed from Genentech’s failed because it “does not foreclose JHL’s alleged use of Genentech’s negative know-how trade secrets. Such use would confer JHL the benefit of steering clear of fruitless development path-

ways, thereby saving precious time and resources.” *Id.* at *19. The Court granted a preliminary injunction, finding that irreparable harm would occur from JHL’s “virtually untraceable” potential use of “negative know-how” in the stolen documents. *Id.* at *20.

Courts sometimes enforce a negative trade secret as the flip side of a positive trade secret. In a case where a customer list was misappropriated, the Ninth Circuit held that “California courts have expressly found that ... ‘[i]f a customer list is acquired by lengthy and expensive efforts, which, from a negative viewpoint, indicate those entities that have not subscribed to plaintiff’s services, it deserves protection as a trade secret.’” *Maharis v. Omaha Vaccine Co.*, 967 F.2d 588 (9th Cir. 1992) (citing *Courtesy Temporary Serv. v. Camacho*, 222 Cal.App.3d 1278, 1288 (1990)). Confusingly, the court did not mean that this customer list actually listed people who had not purchased the product. Instead, the court meant that by acquiring a list of those who had purchased, defendants had “acquire[d] a list which has already screened out uninterested consumers and thereby saved ‘themselves comparable efforts in screening out those entities who declined [their] patronage ...’” *Maharis*, 967 F.2d 588; see also *Camacho*, 222 Cal. App. 3d at 1288 (“It is the list of persons who

actually purchase Courtesy’s services that constitute confidential information.”). In other words, in both *Maharis* and *Camacho*, the defendants acquired a customer list and could now avoid calling uninterested people – which the court characterized as a negative trade secret. But, as the reader will no doubt realize, this is just another way to describe acquiring the positive trade secret of interested customers. Other courts have expressly noticed this overlap and re-defined negative secrets as positive ones. See, e.g., *Metallurgical Indus. Inc. v. Fourtek, Inc.*, 790 F.2d 1195, 1198 (5th Cir. 1986) (“Knowing what not to do often leads automatically to knowing what to do ... [I]n this case at least we regard the distinction between ‘positive’ and ‘negative’ knowledge to be unintelligible.”)

Negative trade secrets can be a powerful but difficult to deploy tool in trade secret litigation. Coupling the negative trade secrets with positive know-how or trade secrets, in as specific terms as possible, appears to provide the best opportunity to withstand judicial scrutiny and present a more complete picture of misappropriation to a fact finder.

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