Trade secrets

How to approach trade secret litigation

INTERVIEWED BY ROGER VOZAR

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Trade secret cases are considerably different than other legal disputes, and not being properly prepared could prove costly.

"As a plaintiff, it's not like putting together other complaints that can be fixed later if there's something missing," says Christian E. Picone, a partner at Berliner Cohen. "A seasoned trade secrets defense attorney will take action right away, essentially freezing discovery until they get an articulated definition of the trade secret."

That can be done because of a special statutory requirement under California law that mandates the plaintiff identify the trade secret prior to the discovery process.

Smart Business spoke with Picone and Kathleen F. Sherman, an associate at Berliner Cohen, about how to address that provision and other issues to consider in trade secret litigation.

What's the best way to handle the trade secret definition?

As the plaintiff, you need to prepare with your attorney before drafting litigation and filing a complaint. You have to be ready to articulate the trade secret because the defense could immediately serve you with a special interrogatory demanding disclosure, and you would have 30 days to comply.

A plaintiff will want to keep the trade secret definition as broad as possible to keep options open as the case progresses, while the defense will challenge them to narrow it.

On the defense side it's an opportunity to put the plaintiff on the defensive and demand they articulate the alleged trade secret. It's not enough to say a former employee at your software company took the source code, you have to explain the software, the source code and the trade secret.

What makes something a trade secret?

There is a two-pronged test. A trade secret is information that:

- Derives independent economic value by virtue of not being known by the general public or persons who could obtain economic value from its disclosure or use.
- Its owner has taken reasonable steps to keep it a secret.

With software, the entire piece of software would not be a trade secret because all software contains similar elements, such as a print function. It's the particular aspect of the software that is unique and not known to others in the industry.

However, even if it's unique and derives economic value, you must take steps to prevent competitors from knowing the trade secret. If it's a source code, you must have passwords and allow only certain people to have access.

Cases involving customer lists can be particularly tricky. Not only is there the issue of whether the trade secret has been properly protected, it can't be something that can be easily found. If all you're talking about is the identities of customers, it's going to be extremely difficult to prove your case.

Also, noncompete clauses are invalid in California. You can require an employee to sign a nonsolicitation clause that they cannot actively solicit your customers, but the law is clear that an employee may make an announcement that they are leaving and supply new contact information.

Is proper protection of trade secrets a standard practice?

Most companies try to take the necessary steps, but you're not always thinking about what could happen three years down the road. A startup company scrambling to get a product to market might not consider the steps needed to protect trade secrets.

The best practice is to have every new employee sign a confidentiality agreement stating that they understand the obligation not to disseminate the company's confidential, proprietary information, which includes trade secrets. We've had clients that didn't properly protect trade secrets. Then we have to review whether the admittedly confidential information used to steal customers could be the basis for an intentional interference or contract claim.

Of course, filing a trade secret case is preferable because statutes allow you to request attorney fees, an option that isn't available in tort situations.

Although plaintiffs like the attorney fees provision, that cuts both ways. If a plaintiff files a trade secrets claim that has no reasonable basis, the judge could force the plaintiff to pay defense attorney fees. That's why it's so important to vet the case carefully at the time of filing. ●