

Trade Secret Mediation: A Mediator's Perspective

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Trade secret litigation often involves deep levels of distrust, heated emotional exchanges, suspicion and anger on the part of parties and counsel. One source of the problem lies at the heart of a trade secret misappropriation claim: the allegation that a 'theft' has occurred, and each party's perception of the other party resulting from that allegation. The plaintiff alleges its property has been stolen by the defendant. If the plaintiff desires to avoid the time and expense of trial, the victim must now negotiate with the thief, adding insult to injury. The defendant, on the other hand, may express outrage at being accused of theft, and suspect the litigation is merely a fishing expedition by the plaintiff to uncover the defendant's own trade secrets.

The allegation of theft sets the parties on a difficult path from the very outset, which can affect the likelihood of reaching a settlement during the mediation session. How then can the parties overcome these issues and reach agreement during mediation? This article provides helpful tips for counsel, from knowing the definition of 'trade secret' in the relevant jurisdiction, communicating with opposing counsel and developing trust and cooperation if possible, to conducting thorough discovery and investigations the first time round, moderating use of expert reports and knowing when to 'stop', all with the goal of assisting counsel and clients in successfully mediating trade secret disputes.

Key words

Mediation, alternative dispute resolution, ADR, trade secret, intellectual property, confidentiality, breach of confidence, non-disclosure, Uniform Trade Secrets Act ("UTSA"), California Uniform Trade Secrets Act ("CUTSA"), misappropriation, Restatement (second) Torts, Economic Espionage Act, Defend Trade Secrets Act

Trade secret litigation has dramatically increased in the last decade. According to a 2014 survey of state and federal reported cases in the USA, trade secret lawsuits have increased from approximately 791 in 2003 to approximately 2078 in 2013¹. Companies are increasingly relying on trade secret law to protect and enforce intellectual property rights. Trade secret litigation can take many forms, from civil actions alleging theft and breach of confidence by former employees and competitors, to criminal activities such as industrial espionage and computer hacking.

Introduction

The increase in trade secret litigation, at least in the USA, is partly due to the transitory nature of employment and rapidly evolving technology. Employees rarely stay with one employer for an entire career, a significant change from a just few decades ago. When an employee leaves to start a business, often competing directly with the former employer, or leaves to work for the employer's competitor, suspicions begin to mount that the employee may have misappropriated trade secrets. Advances in technology have also

¹Beck, Russell, 'Trade Secret and Noncompete Survey-National Case Graph 2014 (Preliminary Data)', *Fair Competition Law* blog, 7 January 2014, retrieved from <http://faircompetitionlaw.com/2014/01/07/trade-secret-and-noncompete-survey-national-case-graph-2014-preliminary-data/>.

made it much quicker and easier to access, copy and transfer trade secrets via thumb drives, email, CD-ROMs and other portable storage devices, and through smartphones and hacking. All of these factors have contributed to the rise of trade secret litigation worldwide.

Individuals, businesses and governments seeking to avoid the time and expense of proceeding to trial and other formal proceedings are increasingly using alternative dispute resolution (ADR), such as mediation, to resolve trade secret disputes. Law firm and in-house counsel may find themselves representing a client in a trade secret mediation required by contract, ordered by a trial court or court of appeal, or commenced within the U.S. International Trade Court, the World Trade Organization, or the World Intellectual Property Organization, just to name a few.

Although mediation can be a worthwhile alternative to litigation, there are issues native to trade secret disputes that can hinder the chances of a mediated settlement. Some of the issues that can derail the mediation process are the heightened level of distrust, disrespect, suspicion, anger and emotional exchanges that often occur between parties and counsel in a trade secret dispute. One source of the problem lies at the very heart of a trade secret misappropriation claim: the allegation that a ‘theft’ has occurred, and each party’s perception of the other party resulting from that allegation. The plaintiff alleges its property has been stolen by the defendant. If the plaintiff desires to avoid the time and expense of trial, the victim must now negotiate with the thief, adding insult to injury. The defendant, on the other hand, may express outrage at being accused of theft, and suspect the litigation is merely a ‘fishing expedition’ by the plaintiff to uncover the defendant’s own trade secrets.

The allegation of ‘theft’ sets the parties on a difficult road from the very outset, which can affect the chances of settling the matter. How then can the parties overcome these issues and reach agreement during mediation? This article seeks to address some of the major issues that should be addressed by counsel in a trade secret mediation, and provide suggestions, from a mediator’s perspective, to assist counsel and their clients in overcoming these issues and successfully resolving the client’s trade secret dispute in mediation.

1. Defining a ‘trade secret’

The first and most important issue addressed in trade secret mediation is whether the allegedly misappropriated information constitutes a trade secret. Plaintiff’s counsel may argue that a client’s list of customer names and contact information is sufficient to constitute a trade secret. However, some courts require more, such as customer preferences, needs and characteristics, or that time and expense were required to compile the list. Some courts find that names of contact persons easily obtainable by a phone call, or addresses obtainable via the internet are not trade secrets.² Defense counsel may argue that names and addresses do not constitute trade secrets without making sure the information is not in the public domain, easily obtainable or otherwise does not qualify as a trade secret. Counsel must be aware that the definition of ‘trade secret’ varies by court, nationally, and internationally including by treaty, and a particular definition may affect the outcome of the mediation session.

²See, *Scott v. Snelling & Snelling, Inc.*, 732 F.Supp 1034, 1044 (N.D. Cal. 1990); *Mor-Life vs. Perry*, 56 Cal.App 4th 1514, 1521 (1997); and *Cellular Accessories for Less Inc. vs. Trinitas LLC*, CV 12-06736 DDP (C.D. Cal 2014).

1.1 United States (USA)

In the USA, the predominant definition of ‘trade secret’ can be found in the UTSA, a model state law promulgated by the National Conference of Commissioners on Uniform State Laws and adopted by 47 states.³ The UTSA defines ‘trade secret’ as

‘[i]nformation, including a formula, pattern, compilation, program, device, method, technique, or process, that (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.’⁴

States that adopt the UTSA are free to modify it, requiring counsel to be further aware of any variations from the model UTSA, including the definition of ‘trade secret.’ California adopted a version of the UTSA before the model law was finalized. As a result, the definition of ‘trade secret’ in California’s version differs slightly from the UTSA, in that subsection (i) of California’s version states the information must not be generally known to the public, and leaves out the requirement that the information must also be not readily ascertainable by proper means.⁵

New York has not adopted the UTSA; rather, New York courts follow Section 757 of the Restatement (second) of Torts, which defines ‘trade secret’ as any ‘formula, pattern, device or compilation of information which is used in one’s business, and which gives an opportunity to obtain an advantage over competitors who do not know or use it.’ New York courts also apply a six-factor test to determine whether the formula, pattern, device or compilation of information amounts to a ‘trade secret.’⁶

The USA has also adopted federal statutes relating to trade secrets. The Economic Espionage Act of 1996, a criminal statute, defines ‘trade secret’ as

‘...all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if (A) the owner thereof has taken reasonable measures to keep such information secret; and (B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, the public’.⁷

The Defend Trade Secrets Act, a bill introduced by the United States Senate on 29 April 2014, if passed, would provide a new civil cause of action for trade secret theft and adopts the definition of ‘trade secret’ found in the Economic Espionage Act.

³The only states that have not adopted the UTSA are North Carolina, New York and Massachusetts, with Massachusetts currently considering a bill to adopt the UTSA.

⁴Uniform Trade Secrets Act Section 1(4).

⁵Cal. Civil Code Section 3426.1(d).

⁶Such factors are (1) the extent to which the information is known outside the business; (2) the extent to which those involved with the business know the information; (3) the extent to which measures are taken to protect the information’s secrecy; (4) how valuable the information is; (5) the expense and/or difficulty involved in developing the information; and (6) the difficulty with which others could develop the information. *See, e.g., Marietta Corp. v. Fairhurst*, 301 A.D.2d 734, 738 (3d Dep’t 2003); and *Ashland Mgt. v. Janien*, 82 N.Y.2d 395, 407 (1993).

⁷18 U.S.C. 1839(3).

1.2 United Kingdom (UK)

In the UK, trade secrets are protected primarily through contract and common law relating to confidentiality. There are no specific codes addressing trade secrets nor is there any universal definition of ‘trade secret’. Trade secret litigation in the UK primarily involves actions for breach of confidence. Contractual confidentiality obligations are found in the form of non-disclosure, employment agreements and memorandums of understanding, each having its own provision for ‘trade secrets’ likely incorporated in the definition of ‘confidential information’.⁸

1.3 International Treaties

The definition of ‘trade secret’ may also be found in international treaties. The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement,) Uruguay Round provides trade secret protection for information so long as it

‘... (a) is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question; (b) has commercial value because it is secret; and (c) has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret.’⁹

In the European Union, the Council for the European Union published on 28 November 2013 its first draft proposal for a Directive on the protection of trade secrets, in which the definition of ‘trade secret’ follows the TRIPS definition.¹⁰

As shown above, the definition of ‘trade secret’ can vary by court, state, nation and treaty. The failure by counsel to be aware of these differences and determine the appropriate definition for the relevant jurisdiction may lead to an unsupportable position at mediation and disagreements as to the level of protection afforded, to the detriment of the client.

Counsel should take care to review statutes, case law and secondary sources in each relevant jurisdiction where litigation or proceedings may be brought, to determine what qualifies as a trade secret and the bounds and limitations before proceeding to mediation. Counsel should advise the mediator, either in a pre-mediation telephone call or in the party’s mediation brief (if provided), if a dispute exists concerning whether the information qualifies as a trade secret, so that the mediator can prepare for the discussion, ask questions of each party appropriately, and request documents and supporting information so that the matter may be properly discussed and resolved during the mediation session.

2. Communicating with Opposing Counsel

One of the key factors for a successful mediation session is the level of professionalism, courtesy and respect shown when communicating with opposing counsel before, during and after the session. Trade secret mediations usually involve heightened emotions and distrust, and nothing affects an already emotional situation more than a communication

⁸Ellis, Michael and Trysburg, Donna, *Information Lock Down*, Intellectual Property Magazine, December 2011/January 2012, retrieved from www.ellis-ip.co.uk/documents/061-062-IPM-Dec11Jan12-FO.pdf. See also *Mars UK Ltd v Teknowledge Ltd* [2000] FSR 138; *Vestergaard Frandsen A/S v Bestnet Europe Limited* [2013] UKSC 31; and *Coco v A N Clark (Engineers) Ltd* [1969] RPC 41.

⁹Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement,) Uruguay Round, Article 39, Section 2.

¹⁰*The Council of the European Union takes position on the trade secrets draft-Directive*, 26 May 2014 Press Release, Council of the European Union, retrieved from http://ec.europa.eu/internal_market/ipenforcement/trade_secrets/index_en.htm#maincontentSec1.

problem. An overlooked or delayed response to an email, the failure to return a phone call or a rude comment may be interpreted by opposing counsel (and sometimes rightfully so) as a sign of disrespect, which can affect a party's willingness to settle.

Counsel should resist the temptation to lobby a rude or disrespectful comment or gesture in response to one received. The more professional and respectful the communications, the better the outcome at mediation. This does not mean that counsel should not vigorously advocate for the client, but counsel should consider the external pressures already being exerted on the mediation before adding more. Counsel should promptly respond to letters, calls and emails and in a professional manner to reduce the chance of misunderstandings.

It is important to remember that parties and counsel may be conducting business in different time zones and with business hours, especially where international disputes are concerned. Cultural differences must be taken into account when considering communication issues, such as whether certain cultures are more or less offended at being tardy, responding to communications late and the tone and language used. All of these matters must be taken into consideration prior to the commencement of the mediation session.

Counsel may want to consider making an agreement up front on the communication process, such as an agreement to communicate in a respectful and professional manner; determining the days and hours during which phone calls will be made and emails and documents will be sent and responded to, who should be included as cc's, etc. Counsel may also want to determine who should represent the client at mediation and/or lead the negotiations based on each attorney's characteristics, personality, strengths and weaknesses, and whether those factors will help or hinder the mediation process, especially in emotionally charged cases.

3. Developing Trust and Cooperation

Trade secret mediations can often turn on the level of trust and cooperation established between the parties. It is extremely helpful to form an agreement that the parties will act in good faith during the mediation session. If plaintiff's counsel has any suspicion the defendant is playing 'hide the ball,' or defendant's counsel feels plaintiff is seeking to engage in a fishing expedition, it will be difficult to obtain concessions from a party or reach settlement. The more open, honest, transparent and authentic each party is (or each party *appears to be*), the less contentious the mediation will be and the more likely a settlement can be reached. Even if the parties cannot develop a satisfactory level of trust, it is helpful to agree on some basic level of cooperation which will assist in reaching settlement.

4. Conducting thorough discovery and investigations

Counsel (both in-house and law firm) who do not have experience with trade secret disputes or who are not familiar with the discovery process, employment matters, computer software, networks, security features and information technology departments and staff, should promptly seek the advice of trade secret counsel or a consultant. This will help to ensure that employees and contractors are properly instructed on how to search internal systems/networks; to conduct successful witness interviews by asking the right questions; to ensure any investigation conducted is complete so there are no surprises later on; to properly develop and respond to discovery requests; and to avoid spoliation of evidence. An incomplete or faulty investigation, especially if discovered during the mediation, may raise suspicions and require the mediation session to be suspended so that a supplemental investigation can be performed or additional discovery propounded, resulting in increased time, expense and frustration for all involved.

5. Moderating use of expert reports

Sometimes a party will introduce an expert report, such as a forensic computer report, during the mediation for certain participants to review. Expert reports are extremely helpful in educating the mediator, determining what information resided in the defendant's possession, such as defendant's computer systems, and whether the information constitutes the plaintiff's trade secrets. On occasion, the expert's report is such a maze of jumbled, unintelligible graphs, charts, data and technical speak that it requires an instructional manual. Explaining reports during mediation can waste precious time that could be better used for settlement discussions.

Counsel should make sure the graphs, charts, legends and data in expert reports are clear and easy to understand; the explanatory text is written in layman's terms, not industry speak; and the results and implications are clear. Simplified expert reports will minimize the time spent reviewing and explaining the report, and maximize the time spent on negotiating settlement terms during the mediation session.

6. Knowing When to 'Stop'

Trade secret cases often involve a substantive investigation into a party's computers, networks, systems and personnel to discover if trade secrets have been misappropriated. Depending on the manner in which systems and software are configured, whether company policies are/were in place and the availability and reliability of witnesses, it may not be possible to develop a full picture of whether misappropriation has occurred or to what extent. There usually comes a time when counsel and client must accept this fact, and decisions must be made based on the information available at that moment.

It also may not be worth the time, effort and expense to continue an investigation or conduct additional discovery. The client may not be willing or may not have the resources to investigate the matter at the level needed to fully support the client's position. The difficulty is knowing when to 'stop,' and convincing the client to do the same. Emotions and distrust may impede a party's ability to think clearly and make a rational decision on the matter, but it must be done, especially when it is in the best interest of the client, financially and emotionally, to reach a settlement during the mediation session.

Counsel must help the client determine the best decision to make at mediation, whether it be settling the matter or moving on to trial. Always keep the client's best interests in mind, even when emotions or distrust are tempting the parties down a different path.

Parties to a trade secret dispute may experience distrust, incomplete information and a lack of communication and cooperation. They may also disagree as to whether the information in question actually qualifies as a trade secret. The combination of the two can set the tone of the mediation session, impede the parties' willingness to cooperate and reduce the likelihood of reaching settlement. Overcoming these obstacles can be an uphill battle for the parties and the mediator, but they can be overcome by working through, *and in spite of*, a lack of trust and incomplete information; finding areas of cooperation and trust; keeping the lines of communication open; and working in the client's best interest to resolve the dispute so that the client can get 'back to business.' Counsel and clients must commit to the process in order to overcome the barriers to settlement and achieve success in trade secret mediation.

Erica Bristol is an intellectual property attorney and mediator. She practiced as an in house lawyer for over 11 years and she has been a commercial mediator for over 8 years.

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