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Eliminating Predatory Litigation in the Context of Baseless Trade Secret Claims: The Need for a More Aggressive Counterattack

Elizabeth Smith

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ELIMINATING PREDATORY LITIGATION IN THE CONTEXT OF BASELESS TRADE SECRET CLAIMS: THE NEED FOR A MORE AGGRESSIVE COUNTERATTACK

I. INTRODUCTION

Abuse of the judicial process is hardly a novel problem, yet its impact in the area of trade secret litigation uncovers particularly fascinating and unsettled issues. Consider, for example, the following hypothetical situation. Motivated by a falling-out with management over product development strategy, several employees have left a large company to form a competing business selling a similar product in the same marketplace. Outraged at this move and determined to stop the new business in its tracks, management of the large company immediately burdens the new company with a hefty lawsuit. The lawsuit includes allegations that the former employees misappropriated valuable trade secrets from their former employer, and seeks an injunction to prohibit the new company from continuing operation.¹

The employer may indeed have a valid claim. However, its evaluation of the trade secret claim and the loss it will suffer at the hands of the departing employees is often colored by emotion.² In these situations, litigation instigated by the former employer can be used as an anti-competitive tool.³ Established companies sometimes pursue a baseless trade secret lawsuit⁴ for the purpose of harassing or eliminating an incipi-

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¹ This hypothetical is a composite of a more detailed one created by attorney James Pooley in his book, J. POOLEY, TRADE SECRETS 105-10 (1982), in order to illustrate the anatomy of a trade secret case.
² Thomajan, Trade Secrets: Settle or Sue?, 6 LITIGATION 37 (1980).
³ J. POOLEY, supra note 1, at 104.
⁴ A precise definition of what constitutes a "baseless lawsuit" depends, in part, on the nature of the claim being made. In the context of "baseless or vexatious trade secret infringement" claims, the meaning implied by preterm focuses on proceedings instituted: (1) without probable cause for a reasonable belief in the merit of the claim, and (2) for the purpose of harassing and annoying a competitor and interfering with its business relationships.
ent competitor. The new company is forced to utilize its limited capital and manpower to fend off the baseless lawsuit instead of developing its product, and thus may be effectively prevented from entering the market during a crucial "start-up" period.

This comment will address the unresolved problem of how to eliminate the availability of the judicial process to business entities that pursue baseless trade secret misappropriation lawsuits for the purpose of harassing or eliminating a competitor. First, it will briefly explain the background and elements of the trade secret cause of action. Second, it will identify how groundless trade secret claims can be used to drain an incipient competitor's resources, thereby preventing the new company from entering the marketplace. Third, the existing defensive tactics available to a defendant will be assessed. Fourth, the author will enumerate the policy considerations that support the view that a more effective deterrent is needed to eliminate the unfair business tactics of entities that initiate groundless trade secret claims. Finally, given the support of these policies, and the inability of existing remedies to effectively deter meritless trade secret claims, the author proposes that a new cause of action be allowed as a business tort under the unfair competition laws.

5. J. POOLEY, supra note 1, at 104.

6. The term "start-up" period refers to the beginning stages of a company's entry into a market. During this period, the company's ability to survive is usually highly dependent upon the availability of financing and the projection of a favorable image to the public. Interview with James Pooley, Esq., of Mosher, Pooley, Sullivan & Hendren, Palo Alto, Cal. (Jan. 5, 1983).

7. It is important to note briefly the conflicting social interests which must be balanced in developing alternatives to remedy this problem of vexatious litigation. On the one hand is the employer's interest in preventing the unjust enrichment of competitors by protecting valuable business information it develops, and society's interest in providing economic incentive for continued innovation. McBrearty, Antitrust Treatment of Competitive Torts: An Argument for a Rule of Per Se Legality Under the Sherman Act, 58 Tex. L. Rev. 415, 417 (1980). On the other hand there is the employee's interest in economic mobility and personal freedom (von Kalinauski, Key Employees and Trade Secrets, 47 Va. L. Rev. 583, 599 (1961)), the new company's right to survive, and society's interest in encouragement of competition and the discouragement of monopoly. In addition, there is the public policy against unfair business practices, particularly schemes abusively employing the judicial process. For a meaningful discussion of the competing policy considerations involved in trade secret litigation, see generally R. MILGRAM, TRADE SECRETS, ch. 7 (1983).
II. THE TRADE SECRET CAUSE OF ACTION

Before illustrating the potential for abuse inherent in the trade secret misappropriation claim, it is necessary to briefly explain the background and elements of the trade secret cause of action. The trade secret cause of action is an equitable remedy which arose under the unfair competition laws. This claim developed out of the desire to allow the protection of ideas which the inventor is unable to safeguard under the copyright or patent laws. The basic philosophy underlying this cause of action is that where the inventor takes reasonable precautions to keep confidential the ideas it develops, the unauthorized use or disclosure of those ideas by another constitutes a breach of trust that is actionable under the unfair competition laws.

Although what constitutes a trade secret is not subject to a simple definition, courts in many jurisdictions rely on the definition provided by the Committee on Torts of the American Law Institute as a guideline. It provides in pertinent part: "A trade secret may consist of any formula, pattern, device or combination of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it." Thus, a trade secret "may be a formula for a chemical compound, a process of manufacturing, treating or preserving materials, a pattern for a machine or other device, or a list of customers."

Although no single formulation for imputing liability for trade secret misappropriation has been universally accepted, courts generally agree that the plaintiff's prima-facie case requires proof of the following three elements by a preponderance of the evidence: (1) the existence of a trade secret, (2) the access or acquisition of the trade secret by a third party by unfair means or by an employee under an obligation of confidentiality, and (3) the use or disclosure (or imminent use or disclosure) by that person of the trade secret to the trade secret owner's detriment. At the initial stage of the litigation
the plaintiff need only show a reasonable certainty that it would succeed at trial—not a conclusive showing that it will ultimately prevail. In order to prevail, however, the plaintiff must develop a fairly reliable factual basis for its claims and may not rely upon conclusory allegations.

The defendant need not remain inactive as to the elements which the plaintiff has the burden of proof. The defendant may negate, by way of affirmative defense, each of the elements which the plaintiff has alleged and seeks to prove.

Given the foundational elements of the plaintiff’s prima facie case, the “baseless” trade secret claim on which this comment focuses can be defined as the instigation or continued pursuit of a trade secret claim absent probable cause for a reasonable belief in the existence of the requisite elements. As will be discussed below, the inherent difficulty in detecting baseless trade secret claims stems from the amorphous nature of the required elements. The distinction between “legitimate” and “baseless” trade secret misappropriation claims is, admittedly, a subtle one. Nonetheless, some general guidelines have been established.

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15. Hutter, Pretrial, supra note 14, at 41.


17. R. Milgram, supra note 7, at 7-117. One commentator notes:

Depending upon the peculiar facts of the case, one or more of the following may be appropriate:

The information in dispute was obtained by the corporate defendant other than from the defendant employee.

The information plaintiff seeks to protect is not secret, but is in the public domain.

The former employee was under no obligation of secrecy, either because plaintiff made no effort to keep its information confidential, or because it made no effort to elicit a secrecy pledge from the former employee, or because it sought such a pledge and it was explicitly rejected, or some combination of these. Counsel must, of course, be mindful that the obligations of that employee may depend heavily upon the degree of fiduciary quality in his former employment.

Plaintiff sought to impose secrecy, but did so on such a broad basis, covering nonsensitive as well as sensitive matters, that public policy would be offended by unreasonable inhibition of employee movement. Zamore, Defending Trade Secret Litigation, 6 Litigation 44, 47 (1980).

18. 61 Cal. Jur. 3d 55-56 (1980). That section provides:

As a general rule courts will protect the use of confidential information acquired by an employee in the course of his employment . . . . Thus, a
Central to the problem of the use of baseless trade secret claims to harass or eliminate competitors is the economics of litigation. The tactic of using sham litigation as an offensive weapon is likely to find success only where a relatively large plaintiff sues a comparatively smaller defendant. This is due to the fact that the cost of a lawsuit will be much more of a burden for a small company than for a large one, and thus the smaller firm is more likely to be driven out of the market. This differential in size between the plaintiff and defendant frequently exists in the context of trade secret litigation. In the typical case, the plaintiff is the former employer, a large well-established company, and the defendant is a smaller enterprise founded by a group of ex-employees. Given this discrepancy in size, it is easily understood why the defendant trying to start a new company is at a tremendous disadvantage when faced with litigation costs.

Clearly, the expense of litigation may operate as a weapon for the plaintiff in a trade secret lawsuit. By filing trade secret misappropriation suits against former employees, regardless of merit, large companies can tie up the smaller "start-up" companies in uncertain and expensive proceedings.

One reason for the expense of the litigation stems from the highly technical issues involved. Inevitably, both the plaintiff and defendant are forced to engage the services of
highly paid consultants or experts. In addition to the expense involved in retaining experts, the cost of attorney’s fees alone creates large legal expenses.

Another manner in which a baseless trade secret suit may be used to harm a new competitor is through the exploitation of the adverse publicity it creates. This tactic is vividly illustrated by two leading cases, *Mach-Tronics v. Zirpoli* and *Kobe, Inc. v. Dempsey Pump Co.* In *Mach-Tronics* Ampex sued Mach-Tronics for alleged misappropriation of trade secrets, and Mach-Tronics cross-complained against Ampex for antitrust violations. Mach-Tronics alleged that Ampex instituted its baseless trade secret suit as a part of its effort to drive Mach-Tronics out of the market. Further, it alleged that Ampex proceeded to notify Mach-Tronics’ customers and suppliers of the suit, and falsely represented that the litigation had been decided in favor of Ampex. Finally, Ampex allegedly threatened the customers and suppliers with eco-

21. J. Pooley, supra note 1, at 109. The use of experts has been described as follows:

Their advice is sought regarding technological issues and customer list and employee raiding disputes. They document how easily an independent customer list can be created, the relative importance of price and other objective criteria in a particular market, and the ability of the plaintiff to have avoided all damage by hiring replacement personnel. Like psychiatrists at a criminal trial, experts in a trade secret case can offer wildly different opinions on the same issue. Nevertheless, because of the usually technical questions involved in such litigation, they are practically indispensible and a trade secret case rarely can be tried without them. Typically, the lawsuit requires at least two experts, one dealing with issues of technology and the other an economist to testify as to the harm which was caused, or could have been avoided by each side.

Id.

22. In trade secret cases attorneys frequently go to court before trial to resolve interim disputes, including venue issues, objections to deposition questions, and the availability of preliminary injunctive relief. Each appearance generates more documents and demands more attorney time, thereby increasing legal fees. Significant aspects of the trial can be affected by these motions, and the results are often difficult to predict. Nonetheless, they consume time, add to the fees, and lengthen the time before trial. J. Pooley, supra note 1, at 109.

23. 316 F.2d 820 (9th Cir. 1963).
24. 198 F.2d 416 (10th Cir. 1952), cert. denied, 344 U.S. 837 (1952).
25. The cross-complaint included allegations that Ampex “conspired and combined with other manufacturers and distributors unlawfully to restrain trade in video tape recorders and related components, patented and unpatented, by such means as: division of markets; fixing and stabilizing of prices; cross-licensing of patents; and the institution of baseless litigation against defendants.” 316 F.2d at 822-23.
26. Id. at 822.
27. Id.
nomic reprisals if they dealt with Mach-Tronics.\textsuperscript{28} The court found that Ampex's anti-competitive activities constituted a violation of antitrust law.\textsuperscript{29} In reaching its conclusion the court relied on the case of\textit{Kobe, Inc. v. Dempsey Pump Co.}, where the Tenth Circuit dealt with a strikingly similar situation.\textsuperscript{30}

In\textit{Kobe} the leading manufacturer of pump equipment, Kobe, Inc., sued Dempsey Pump Co., a new company engaged in manufacturing hydraulic pumps, for an alleged patent infringement and misappropriation of trade secrets. Kobe then proceeded to send a letter to the pump equipment customer stating: "[I]t is our obligation to inform you of this pending infringement action." The effects of Kobe's verbal and written communications to customers in the pump industry were disastrous to Dempsey.\textsuperscript{31} A boycott of their products brought their activities to a complete standstill.\textsuperscript{32} Dempsey denied the validity of Kobe's patent infringement claims, as well as the merit of the trade secret suit, and counter-claimed for treble damages under the antitrust laws.\textsuperscript{33} The court held that Kobe was guilty of unlawful monopolization under the Sherman Act and awarded Dempsey treble damages.\textsuperscript{34} The\textit{Kobe} court focused on the verbal and written statements made by Kobe to the pump industry: "To hold that there was no liability for damages caused by this conduct, though lawful in itself, would permit a monopolizer to smother every potential competitor with litigation before it had an opportunity to be otherwise caught in its tentacles and leave the competitor without a remedy."\textsuperscript{35}

The events in\textit{Kobe} provide an excellent illustration of how the adverse publicity associated with litigation may cause a new company to lose existing and potential customers. Another detrimental effect of such litigation is that it may impair the company's ability to obtain financing from venture
capitalists.\textsuperscript{36}

The drying up of financing opportunities impacts the new company faced with a baseless lawsuit in two respects. First, new companies typically have limited capital to work with at the outset and thus rely heavily on venture capitalists and banks to "get the operation off the ground."\textsuperscript{37} Second, even when there is no merit to the claim, the company is required to expend money defending itself.\textsuperscript{38} Frequently, the new enterprise is also dependent upon venture capitalists to cover the costs of the litigation.\textsuperscript{39}

Use of excessive or needless discovery provides another means by which a plaintiff can harm a competitor in a baseless trade secret suit. The discovery process allows the plaintiff to interfere substantially with the business operations of the defendant.\textsuperscript{40} This discovery takes many forms. It includes depositions of employees from both sides, ranging from the chief executive officer to the documents file clerk. In addition, there will usually be hundreds of questions to be answered in interrogatories as well as thousands of documents to produce.\textsuperscript{41}

The discovery process thus functions as a weapon in several ways. First, it can be used to harass and aggravate the

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36. J. Pooley, \textit{supra} note 1, at 104. This problem has been described as follows: Using the unfair competition suit as a weapon against fledgling companies concerns those who organize and finance new businesses. Many venture capitalists will agree that in choosing between two otherwise equal opportunities they will avoid the start-up company with potential litigation problems. These people seek "positive" deals where management can focus undiverted attention on the new company's growth at the beginning, when its chance of failure is so high. Ill-equipped to judge the relative merits of litigation, potential investors are often scared away by a plaintiff's requests; not just money, but an injunction against [the defendants' ability to] manufactur[e] or [ship] products, or [employ] particularly critical individuals. In one situation, a venture capitalist abandoned financing a new company simply because he was named as a "co-conspirator" in a trade secret complaint.

\textit{Id.}

37. Interview with attorney James Pooley, \textit{supra} note 6.
38. R. Bork, \textit{supra} note 19, at 363.
39. Interview with attorney James Pooley, \textit{supra} note 6. The problem of the detrimental impact of a pending lawsuit on financing opportunities is by no means unique to trade secret litigation. However, the unpredictability as to eventual outcome associated with trade secret litigation makes it more difficult for the trade secret defendant to convince potential financiers that the lawsuit against it is baseless.
40. J. Pooley, \textit{supra} note 1, at 108-09.
41. \textit{Id.} at 108.
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defendant's customers and suppliers. Frequently, the plain-
tiff will depose all of the new company's customers and sup-
pliers. The aggravation of spending time in these proceed-
ings, and answering hundreds of questions often deters the
individuals from dealing with the new company in the fu-
ture. Second, the expense associated with the discovery pro-
ceedings can often be fairly significant. Third, the plaintiff
can tie up the defendant's key employees for several weeks,
forcing them to attend depositions and answer interrogato-
ries. Typically, the defendant, a new company, is likely to
have more limited manpower than the plaintiff, a well-estab-
lished enterprise. Thus, tying up employees in discovery pro-
ceedings is much more likely to result in a slowdown or even a
temporary halt in business for the defendant than for the
plaintiff.

In addition to harassing the defendant through discovery,
trade secret plaintiffs will often be able to freeze a potential
competitor's entry into the marketplace by immediately seek-
ing a restraining order to prevent the defendant from using
the plaintiff's alleged trade secrets. Typically, plaintiffs will
request a restraining order without giving the defendant any
advance warning, in order to maintain the element of sur-
prise. Judges are usually reluctant to decide the factual is-
Sues involved without a full hearing. Consequently, if a re-
straining order is requested without benefit of a hearing, the
judge will usually issue a temporary restraining order to
"maintain the status quo" until a hearing can be held. The
hearing to determine whether a preliminary injunction should
continue pending a full trial of the case is typically set for two
weeks later.

It is at the preliminary injunction stage that many trade
secret cases are won or lost. If a preliminary injunction is

42. Id. at 109.
43. Id.
44. Interview with attorney James Pooley, supra note 6.
45. J. POOLEY, supra note 1, at 109. See supra notes 20-23 and accompanying
text.
46. J. POOLEY, supra note 1, at 108-09.
47. Interview with attorney James Pooley, supra note 6.
48. J. POOLEY, supra note 1, at 106.
49. Id.
50. Id. at 107.
51. Hutter, Pretrial, supra note 14, at 39 (citing Midland-Ross Corp. v. Sun-
granted, the scope of its restrictions can be critical to the defendant. If the preliminary injunction significantly impacts the business of the new company, the defendant's hands will be tied, effectively preventing it from continuing with production plans until after the conclusion of the litigation. Even where the preliminary injunction is not granted, the time that the defendant is forced to spend in fending off the lawsuit functions as yet another weapon for the trade secret plaintiff. A single, well-timed suit, with appeals, can cost a potential competitor large amounts of time and money, even though the suit may be completely frivolous.

Often, because of the highly specialized and rapidly changing technology involved, the defendant's delay in entering the market may mean the new company has lost a unique opportunity to break into an industry. Baseless trade secret claims thus become a useful tactic against incipient competitors. It may be worth the price of litigation for the trade secret plaintiff to purchase a delay of a year or more in a rival's entry into a lucrative market.

beam Equip. Corp., 316 F. Supp. 175 (W.D. Pa.), aff'd, 435 F.2d 159 (3rd Cir. 1970)). To obtain preliminary relief, the plaintiff must persuade the court of at least three things. First, that he is reasonably likely to succeed on the merits at a trial for final injunctive relief in establishing the employee's liability for trade secret misappropriation. This requires proof of: (1) the existence of a trade secret; (2) access to or acquisition of the trade secret by the employee under an obligation of confidentiality; and (3) the use or disclosure (or imminent use or disclosure) by the employee of the trade secret.

Second, plaintiff must show that he will suffer immediate, irreparable injury if the preliminary relief is not granted. Finally, plaintiff must show that, in balancing the convenience and possible injuries to both parties, the "sides of equity" weigh in his favor.

52. Hutter, Pretrial supra note 14, at 42. Hutter notes:

The scope of the preliminary injunction can be critical and deserves careful consideration by both sides. Both plaintiff and defendant want to have the trade secret defined in the injunction with some degree of specificity; plaintiff because he wants to put the defendant on notice about what he cannot do; and defendant because he wants to know what he can and cannot do.

Id.

53. J. Pooley, supra note 1, at 107.

54. Balmer, supra note 20, at 554.

55. Often, even if the defendant wins the trade secret case on the merits, due to the time lag involved there may no longer be a demand for the new company's product. The need may already have been met by another entrepreneur or the new company's product may have become obsolete. Interview with attorney James Pooley, supra note 6.

56. R. Bork, supra note 19, at 348. The words of Judge Curtis, in Lee
The above discussion describing how baseless lawsuits can be used as weapons by trade secret plaintiffs has pointed out the need to protect incipient competitors from meritless trade secret misappropriation claims. The following discussion will illustrate that there is presently no adequate device to provide that protection.

IV. PRESENT COUNTER-ATTACKS AVAILABLE TO DEFENDANTS FACED WITH BASELESS TRADE SECRET MISAPPROPRIATION CLAIMS AND THEIR LIMITATIONS

A. Procedural Defenses

The two fundamental procedural defenses developed to prevent the abuse of the litigation process are the demurrer and the summary judgment. The demurrer is a procedural defense theoretically designed to prevent plaintiffs from litigating claims with no underlying merit. The summary judgment is theoretically designed to prevent plaintiffs from litigating claims where no material issue of fact exists.

The problems associated with determining whether a plaintiff filing a trade secret suit has a valid cause of action and the number of factual issues which usually must be litigated stem from the loose definition given the term "trade secret" and the wide variety of information and processes given protection under trade secret laws.


This case, which at its inception involved issues of no great complexity, has become a gigantic, grotesque monster of procedural strife which is about to consume the parties and the court as well unless it can be brought under some control. During the year and a half in which this case has been pending, both parties have engaged in aggressive, abusive, and harassing discovery, generating some twenty-six file folders of pleadings. The court has been inundated with every conceivable type of motion, and nearly every ruling of the court has been met with objections and motions for reconsideration. As a result, this court cannot help but feel that the parties are more anxious to bring about the financial collapse of their opposition than to move this case toward final solution. Although evoked in the context of a patent dispute, this description is equally applicable to baseless trade secret litigation. The issues in both patent and trade secret cases are frequently complex, and the potential for abuse of the litigation process through excessive discovery and motions is of paramount concern.

57. M. Green, Basic Civil Procedure 108 (1972).
58. Id. at 117.
59. See supra note 12 and accompanying text.
The basic definition does not inherently exclude from protection any type of information; the determination to protect certain information as a trade secret is based upon the facts of each case. Thus, a major distinguishing feature of trade secret litigation is the inability to predict exactly what may happen until the facts are fully laid out in the courtroom. This characteristic of trade secret litigation is one of the major factors which renders both the demurrer and the motion for summary judgment, the usual tools for eliminating unwarranted litigation, ineffective in the context of trade secret claims.

1. Demurrer

A general demurrer allows the defendant to argue that the plaintiff's complaint has failed to state a claim for relief or a cause of action. In essence, the demurrer points to defects on the face of the complaint. Thus, a defendant raising a demurrer as a defense in a trade secret claim will argue that the plaintiff has failed to allege facts sufficient to establish the existence of a trade secret or a valid claim for trade secret misappropriation.

The goal of the trade secret plaintiff, however, is to keep the pleadings and the proof as general and as vague as possible in order to avoid unnecessary disclosure of confidential information. Although the plaintiff's failure to define a trade secret when so requested by a judge is sufficient grounds for dismissing the action, often a base outline of information about the trade secret, just enough to motivate the court to

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61. J. Pooley, supra note 1, at 106. "In most cases plaintiffs must construct a web of perhaps ambiguous circumstantial evidence from which the trier of fact may draw inferences which convince him that it is more probable than not that what plaintiffs allege happened did in fact take place." Hutter, Pretrial, supra note 4, at 40 (quoting Greenberg v. Croydon Plastics Co., 378 F. Supp. 806, 814 (E.D. Pa. 1974)).
62. Interview with attorney James Pooley, supra note 6.
63. M. Green, supra note 57.
64. Id.
65. See supra notes 12-14 and accompanying text.
66. Thomajan, supra note 2, at 38.
issue a preliminary injunction, is sufficient.\textsuperscript{68}

Thus, the desire to protect the confidentiality of the information alleged to be a trade secret gives plaintiffs a fair amount of leeway in stating a cause of action.\textsuperscript{69} Often, plaintiffs are allowed to simply refer to "know how" to which the alleged misappropriator had access.\textsuperscript{70} Consequently, the ability of the demurrer to challenge the sufficiency of the plaintiff's complaint has been substantially undermined in the area of trade secret disputes.

2. \textit{Summary Judgment}

The motion for summary judgment is used to determine whether the issues raised by the pleadings are substantial enough to warrant a trial.\textsuperscript{71} In order for a motion for summary judgment to be granted, there must be no genuine issue of material fact and the movant must be entitled to a judgment as a matter of law.\textsuperscript{72}

One distinguishing feature of trade secret litigation, however, is that the facts of the case will determine the law. That is, the facts will determine whether or not something is a "trade secret." Therefore, there will rarely be "no issue of material fact" in a trade secret case. Furthermore, various interpretations of a given set of facts are often possible.\textsuperscript{73} Consequently, the case usually comes down to both sides attempting to persuade a judge or jury to accept their version of the facts.\textsuperscript{74} As illustrated by the case of Szczesny \textit{v. W.G.N. Con-}

\textsuperscript{68} Thomajon, \textit{supra} note 2, at 38. The ability to allege the existence of a trade secret in rather general terms extends also to the requirements for obtaining preliminary injunctive relief. Although some courts require that the trade secret be specifically identified (see, e.g., Bliss Co. \textit{v. Struthers-Dunn, Inc.}, 408 F.2d 1108 (8th Cir. 1969)), and some specificity is required by Rule 65(d) of the Federal Rules of Civil Procedure, other courts issue broad and vague injunctions in trade secrets cases (see, e.g., K & G Oil Tool & Serv. Co. \textit{v. G&G Fishing Tool Serv.}, 158 Tex. 594, 314 S.W. 2d 782 (1966) - injunction stopped defendants "from using in any way the confidential information obtained by defendants from an examination of plaintiff's product"). Hutter, \textit{Pretrial, supra} note 14, at 42.

\textsuperscript{69} This interest in protecting the "secrecy" element of the information alleged to be a trade secret is evidenced by the frequent use of protective orders requiring that all proceedings be held in camera. \textit{See generally} Seidel & Panitch, \textit{supra} note 67.

\textsuperscript{70} \textit{Id.} at 22.

\textsuperscript{71} M. Green, \textit{supra} note 57, at 117.

\textsuperscript{72} M. Kane, \textit{supra} note 63, at 138-39.

\textsuperscript{73} J. Pooley, \textit{supra} note 1, at 105.

\textsuperscript{74} \textit{Id.}
tinental Broadcasting Co., courts are reluctant to grant defendants' motions for summary judgment dismissing the complaint unless the defendant can present compelling proof that no material issue of fact exists.

In view of the inherent limitations of traditional procedural defenses, the following discussion will assess the substantive counterclaims which may be asserted by a defendant burdened with a baseless trade secret claim.

B. Substantive Counterclaims

In the case where defendant's counsel believes in good faith that the defendant has done nothing unlawful, and that the trade secret misappropriation suit is merely an attempt to inhibit or destroy the defendant as a legitimate competitor, an aggressive counterclaim is the defendant's best strategy. The counterclaims frequently asserted under tort law include claims of interference with economic relations, such as injurious falsehood or trade defamation, interference with contractual relationships, interference with prospective economic advantage, and claims against tortious litigation, such as malicious prosecution and abuse of process. In addition, defendants can counterclaim under the federal Sherman Antitrust Act for an attempt to monopolize or a conspiracy to destroy a competitor in restraint of trade. Alternatively, trade secret defendants may elect to counterclaim against the plaintiff under equivalent state antitrust statutes.

The list of counterclaims set forth above appears to provide the trade secret defendant who has been burdened with a baseless lawsuit with a number of alternative remedies. However, the availability of the cause of action is often curtailed by the facts of the particular case. Furthermore, even when the trade secret defendant prevails on a counterclaim, the re-

76. 315 N.E.2d at 268-69. Although it dealt with a copyright infringement claim, Szczesny is indicative of the reluctance of courts to grant defendants' motions for summary judgment in trade secret disputes. Both trade secret and copyright disputes revolve around sticky factual determinations, thus courts in both areas are not inclined to grant defendants' requests for summary judgment.
77. Zamore, supra note 17, at 46.
78. J. Pooley, supra note 1, at 108.
lief afforded under many of these causes of action may fail to provide full compensation for the losses sustained in defending the baseless lawsuit.

1. *Interference with Economic Relations*

Just as the cause of action for trade secret misappropriation developed under the laws of unfair competition, so too did the tort claims recognizing certain unlawful interferences with economic relations. These causes of action include trade defamation, interference with contractual relations, and interference with prospective economic advantage.

a. *Trade Defamation*

If the plaintiff in a trade secret case has made improper, disparaging statements about the defendant to other persons in the industry in which plaintiff and defendant compete, the defendant may assert a counterclaim for trade defamation. Also referred to as "injurious falsehood," this cause of action resembles personal defamation. However, it is materially different due to the greater burden of proof resting on the trade defamation plaintiff. In the case of personal slander, there is a presumption that the disparaging statement is false. However, the plaintiff in a trade defamation suit has the burden of proving the falsity of the disparaging statement.

In order to recover under a counterclaim for trade defamation, the trade secret defendant must show that: (1) the trade secret plaintiff published derogatory material about the trade secret defendant; (2) the trade secret plaintiff distributed the material to third persons; (3) the publication played a material and substantial part in inducing third persons not to deal with the trade secret defendant; and (4) as a result of these events, the trade secret defendant has suffered special

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81. See *supra* notes 8-9 and accompanying text.
82. 61 Cal. Jur. 3d, *supra* note 18, at 25. See *infra* notes 170-79 and accompanying text.
83. 61 Cal. Jur. 3d, *supra* note 18, at 25. In focusing on these causes of action, it should be pointed out that "the recognition that [business] relationships are entitled to protection against unreasonable interference is on the whole a comparatively recent development." W. Prosser, *Handbook of the Law of Torts* 915 (4th ed. 1971).
84. W. Prosser, *supra* note 83, at 920.
85. *Id.*
damages.\textsuperscript{86} Even in cases where blatant disparagement of the trade secret defendant's business has been shown, the "special damages" requirement seriously inhibits the potential usefulness of this counterclaim to the trade secret defendant. Special damages refers to a pecuniary loss.\textsuperscript{87} The trade secret defendant will often experience a severe decline in business as a result of disparaging statements.\textsuperscript{88} However, the difficulty in establishing the special damages element is that most courts do not regard a general decline in business as sufficient proof of special damages.\textsuperscript{89} The trade secret defendant is required to establish a causal connection between the decline in business and the disparaging statement.\textsuperscript{90} As a general rule the trade secret defendant seeking relief under a counterclaim for trade defamation is required to identify particular purchasers who have refrained from dealing with it as a result of the disparaging statement, and to specify the transactions of which it claims to be deprived.\textsuperscript{91} The inherent difficulty in proving the loss of particular business transactions, particularly with a start-up company, is obvious. The result of this rather strict rule regarding proof of damages, therefore, is that it is very difficult for the trade secret defendant to recover damages under a counterclaim for trade defamation.

b. \textit{Interference with Contractual Relations}

Apart from trade defamation, the defendant faced with a baseless trade secret claim may have a counterclaim against the trade secret plaintiff for interference with contractual relationships. The cause of action for interference with contractual relationships is classified by modern courts as a species of interference with prospective economic advantage and requires five elements: (1) a valid existing contract; (2) defendant's knowledge of the contract and intent to induce breach; (3) a contract breached in fact, or whose performance was ren-

\textsuperscript{86} Id.
\textsuperscript{87} Id. at 922.
\textsuperscript{88} See, e.g., Kobe, 198 F.2d 416. The defendant's business came to almost a complete standstill as a result of the plaintiff's disparaging publication to defendant's customers.
\textsuperscript{90} W. Prosser, supra note 83, at 923.
dered more difficult; (4) causation; and (5) actual damage. In the context of baseless trade secret suits, this tort allows the trade secret defendant to counterclaim against the trade secret plaintiff when the actions of the trade secret plaintiff have led customers to breach their contracts with the trade secret defendant or when the trade secret defendant's performance has been rendered impossible.

The limited usefulness of the cause of action for interference with contractual relations as a counterclaim for the trade secret defendant stems from the requirement that the damage suffered by the trade secret defendant take the form of a breached contract. Since the trade secret defendant is usually a start-up company, it is unlikely to have many existing contracts. Hence, in practice the cause of action for interference with contractual relations is frequently unavailable to trade secret defendants as a counterclaim.

c. Interference with Prospective Economic Advantage

The remaining business tort available to the trade secret defendant as a counterclaim is that of interference with prospective economic advantage. In order to recover, the trade secret defendant is required to show the following elements: (1) the existence of an economic relationship containing a probability of future economic benefit; (2) the trade secret plaintiff's knowledge of the existence of that relationship; (3) intentional or negligent acts on the part of the trade secret plaintiff designed to disrupt the relationship; (4) actual disruption of the relationship; and (5) damages to the trade secret defendant proximately caused by the acts of the trade secret plaintiff.

As a general rule, interference with prospective economic advantage is actionable when the interference takes the form of threats against the patrons of a business so that the busi-

93. W. Prosser, supra note 83, at 933.
94. Cf. 4 B. Witkin, supra note 9, at 2637 (employee contracts). Interview with Bruce Spicer, Esq., Law Offices of Thomas E. Schatzel Santa Clara, Cal. (Feb. 2, 1983).
ness is destroyed.96 Thus, a trade secret defendant must show that if not for the tortious interference, there was a reasonable probability that the contract or profit would have been obtained.97 Since the trade secret defendant is typically a small start-up company with limited resources,98 its vulnerability to any form of economic adversity makes the general risk of business failure fairly high. Consequently, it is difficult for the trade secret defendant, already in a precarious financial position, to prove that its lost profits are due to the actions of the trade secret plaintiff bringing a baseless lawsuit.99 As a result, the counterclaim for interference with prospective economic advantage has not been of much use to attorneys in defending companies faced with baseless lawsuits.100

Instinctively, use of baseless litigation as a method of harassing or eliminating an incipient competitor would seem to qualify as an “unfair method of competition” that should be specifically prohibited. However, although “[t]he legal concept of unfair competition has evolved as a broad and flexible doctrine,”101 courts have not yet recognized vexatious litigation as a specific act of unfair competition to be prohibited.102 Instead, courts generally construe abusive litigation as a wrong to be addressed under the tort causes of action for malicious prosecution and abuse of process.103 As the following discussion will illustrate, these latter causes of action have also failed to provide the trade secret defendant with a mean-

96. The basic principle underlying this cause of action is that the right to engage in an occupation or business as protected under both state and federal constitutions is a valuable property right and an adjunct of personal liberty. 61 Cal. Jur. 3d, supra note 18, at 40-41. See also Mach-Tronics, 316 F.2d 820 (9th Cir. 1963).
98. See supra note 6 and accompanying text.
99. Interview with attorney Bruce Spicer, supra note 94.
100. Id. Mr. Spicer emphasized that the big difficulty with this cause of action is the speculation involved in calculating lost profits, and the general requirement by most courts that the claimant establish a connection between the lost business and interference with particular transactions.
101. 61 Cal. Jur. 3d, supra note 18, at 27. See infra notes 170-79 and accompanying text.
ingful counterclaim to a baseless lawsuit.

2. *Tortious Litigation*

The trade secret defendant faced with a baseless lawsuit may also counterclaim against the trade secret plaintiff for malicious prosecution or abuse of process. Both of these torts are aimed at protecting the integrity of the judicial system by imposing liability for its misuse.\(^{104}\) Theoretically, these causes of action are tailored to prevent judicial abuses, such as the one on which this comment focuses. In the context of trade secret litigation, however, these torts in their present form fail to act as sufficient deterrents.\(^{105}\) Unfortunately, some plaintiffs initiate baseless trade secret claims with an underlying intent to burden the defendant with a lawsuit rather than to pursue the merit of the claim asserted.\(^{106}\)

a. *Malicious Prosecution*

A malicious prosecution cause of action is comprised of the following elements: (1) the absence of probable cause for initiating the proceeding; (2) a primary motivation other than seeking legal redress (referred to as "malicious intent"); (3) termination of the proceeding in favor of the malicious prosecution plaintiff; and (4) actual injury or damage to the defendant resulting from the malicious prosecution.\(^{107}\) The tort, in essence, is the unjustifiable instigation of the legal process to merely vex or injure another.\(^{108}\)

The attractiveness of malicious prosecution as a potential counterclaim against vexatious trade secret litigation stems from its focus on the *intent* of the plaintiff pursuing the baseless claim.\(^{109}\) This is evidenced by the "absence of probable cause" requirement. Probable cause is defined as "an honest suspicion or belief on the part of the instigator of either a civil

105. Interview with attorney James Pooley, *supra* note 6. See also R. Bork, *supra* note 19, at 348 for a discussion of how the price of litigation may be worth it to the plaintiff seeking to delay a rival's entry into the market. The virtue of Bork's discussion is that it points out how "predatory litigation" may be a cost-effective technique for eliminating legitimate rivals.
108. *Id.* at 521.
109. *Id.* at 548.
or a criminal proceeding, founded on facts sufficiently strong to warrant a belief on the part of the average person that grounds exist for instigating proceedings.\textsuperscript{110}

Unfortunately, however, the "favorable termination" requirement\textsuperscript{111} places a severe burden on the malicious prosecution plaintiff by preventing it from filing suit while the allegedly baseless litigation is pending.\textsuperscript{112} Because the greatest burden on the defendant in a baseless lawsuit is usually the cost of the litigation, the right to sue after going bankrupt defending a baseless trade secret claim would be of little value.\textsuperscript{113} The usefulness of malicious prosecution as a counterclaim for the trade secret defendant is further undermined by the burden of proof which the trade secret defendant must meet. Courts generally require the trade secret defendant to demonstrate that the trade secret plaintiff's decision to litigate was "clearly" unreasonable in order to establish a claim for malicious prosecution.\textsuperscript{114} Thus, the malicious prosecution suit, although properly focused on the "intent" of the person filing the questionable trade secret claim, is not particularly useful as a counterclaim for defendants.

b. Abuse of Process

Another attack on abusive litigation is the tort claim for abuse of process. The essential elements of the cause of action for abuse of process are: (1) that the defendant had an ulterior motive or purpose in the use of the process, (2) that the defendant acted wilfully in using the process in an improper manner in the regular conduct of the proceeding, and (3) that damage to the plaintiff resulted from the irregularity in the use of the process.\textsuperscript{115}

Abuse of process, unlike malicious prosecution, does not require lack of probable cause in commencing the action or a

\textsuperscript{110} Id.

\textsuperscript{111} One reason for the rule requiring favorable termination is that otherwise the complaining party might secure a recovery for bringing an action that the court entertaining such cause might later find to have been well brought. Furthermore, the rule prevents a collateral attack on the judgment of a duly constituted court or on the determination of an administrative body acting in a quasi-judicial manner. 6 CAL. JUR. 3D, supra note 103, at 535-36.

\textsuperscript{112} Balmer, supra note 20, at 555.

\textsuperscript{113} Id. at 556.

\textsuperscript{114} W. PROSSER, supra note 83, at 841-47.

\textsuperscript{115} 6 CAL. JUR. 3D, supra note 18, at 200.
favorable termination of the proceeding.\textsuperscript{116}

\[ \text{[T]he gist of the tort of abuse of process is not commencing an action, or causing process to issue without justification, but in misusing or misapplying process that is justified in itself, for an end other than that which it was designed to accomplish; the purpose for which process is used, once it is issued, is the only thing of importance.}\textsuperscript{117} \]

The element of improper purpose requires the trade secret defendant to show coercion on the part of the trade secret plaintiff in order to obtain a collateral advantage.\textsuperscript{118} For example, there may be an actionable abuse of process where it can be shown that the plaintiff filed the trade secret claim in order to coerce the defendant into entering into certain business arrangements with it.\textsuperscript{119} Further, the element of a wilful act involving an improper use of the process in the regular conduct of the proceeding may consist of a threat made by the plaintiff to coerce the defendant in order to obtain a collateral advantage, or in the use of process for an improper or unauthorized purpose.\textsuperscript{120}

In most successful counterclaims for abuse of process, the trade secret defendant's recovery is limited to attorney's fees and costs incurred in the abusive lawsuit.\textsuperscript{121} As discussed earlier, the losses suffered by the defendant as a result of the lawsuit often include a loss of existing and potential business.

\textsuperscript{116} Id. at 198-99.
\textsuperscript{117} Id. at 199.
\textsuperscript{118} Id. at 201. For example, in Barquis v. Merchants Collection Ass'n of Oakland, 7 Cal. 3d 94, 496 P.2d 817, 101 Cal. Rptr. 745 (1972), the court found for defendant on a claim for abuse of process where a collection agency wilfully and knowingly filed actions in an improper county pursuant to statutorily inadequate pleadings, for the ulterior purpose of impairing the defendant's rights to defend the suits, in order to coerce inequitable settlements and default judgments. Applying this concept to the context of abusive trade secret litigation, an abuse of process action might lie where the trade secret plaintiff obtains a restrictive preliminary injunction against the trade secret defendant and then engages in settlement negotiations, offering to drop the suit in exchange for the trade secret defendant's agreement not to expand in a particular market. Balmer, supra note 20, at 557.
\textsuperscript{119} 6 CAL. JUR. 3d, supra note 103, at 202.
\textsuperscript{120} Id.
\textsuperscript{121} See id. at 206, where it is stated that:
"One who uses legal process . . . against another to accomplish a purpose for which it is not designed is liable to the other for the pecuniary loss caused thereby." But see 14 CAL. JUR. 2d 682-83, 697-700 (1954) (discussing the uncertainty and speculation with regard to damages to profits of a newly established business).
Consequently, the recovery of attorney's fees and costs leaves the defendant without compensation for its losses.\footnote{122}

As with all torts, punitive damages are available when oppression, fraud or malice is shown.\footnote{123} Although recovery of punitive damages in some cases would compensate the trade secret defendant for otherwise incompensable injuries, punitive damages are not favored by the law, and courts will allow them only with the greatest caution.\footnote{124} As a result of the factors mentioned above, the cause of action for abuse of process has not been regarded as an aggressive counterclaim by trade secret defendants.\footnote{125}

3. \textit{Antitrust}

In asserting a counterclaim for antitrust, the defendant must allege that the plaintiff has violated either section 1\footnote{126} or section 2\footnote{127} of the Sherman Antitrust Act. In asserting an antitrust counterclaim under section 1, the trade secret defendant is required to prove the existence of a "contract, combination, . . . or conspiracy in restraint of trade."\footnote{128} In essence, this language requires the trade secret defendant to establish three elements: (1) an agreement; (2) made between two or more parties; and (3) the net effect of the agreement being an unreasonable restraint on competition.\footnote{129}

\footnotetext[122]{122. Interview with attorney James Pooley, \textit{supra} note 6.}
\footnotetext[123]{123. Thompson, \textit{An Outline of 23 California Common Law Business Torts}, 13 PAC. L.J. 1, 15.}
\footnotetext[124]{124. Galane, \textit{Proving Punitive Damages in Business Tort Litigation}, 2 LITIGATION 24 (1976). To illustrate, a common practice among courts is to instruct the jury that it may award punitive damages if it finds that the defendant's conduct was outrageous and evidenced "evil motives . . . reckless indifference to the rights of others." The assessment of punitive damages is then left to the discretion of the jury. Mailer & Roberts, \textit{Punitive Damages: Towards a Principled Approach}, 31 HASTINGS L. J. 639, 663-64. In practice, juries given this type of instruction are reluctant to award punitive damages because of the extremely negative connotations involved. Interview with attorney James Pooley, \textit{supra} note 6.}
\footnotetext[125]{125. Interview with Thomas Schatzel, Esq., Law Offices of Thomas Schatzel, Santa Clara, Cal. (Feb. 5, 1983).}
\footnotetext[126]{126. 15 U.S.C. § 1 (1976).}
\footnotetext[127]{127. 15 U.S.C. § 2 (1976).}
\footnotetext[128]{128. 15 U.S.C. § 1 provides in pertinent part: "Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several states, or with foreign nations, is hereby declared to be illegal. . . ."}
\footnotetext[129]{129. L. SULLIVAN, \textit{HANDBOOK OF THE LAW OF ANTITRUST} 153-55 (1977). Certain types of agreements are afforded per se treatment under the antitrust laws whereby the antitrust plaintiff is not required to prove an anti-competitive effect. These include price-fixing agreements, market division agreements, group boycotts, and tying
One problem in establishing a violation under this section is the prerequisite of establishing the existence of an agreement between two or more parties. The trade secret defendant would be precluded from recovering under section 1 where the anti-competitive scheme involving a baseless trade secret suit is engineered by a single entity.130

A second problem confronted by trade secret defendants in counterclaiming under section 1 is the high standard used by courts in determining the existence of an unreasonable restraint on trade. In making this determination, the courts consider the purpose of the agreement, in conjunction with the market power and economic strength of the parties to the agreement.131 In finding agreements to be “unreasonable”, courts usually require a showing that the restraint was “so substantial as to affect either market prices or commercial freedom.”132

Alternatively, the trade secret defendant can assert an antitrust counterclaim under section 2 of the Sherman Act, which prohibits a “monopolization” or “attempt to monopolize” an industry.133 The elements for a section 2 cause of action are: (1) the antitrust defendant’s specific intent to monopolize a certain market and (2) a “dangerous probability” that the attempt will succeed.134 Conduct from which specific agreements. Id. In the context of vexatious litigation, however, most agreements fall under the “rule of reason” analysis, which requires the court to examine their purpose and net competitive effect. Id. at 182-97.

130. Id. at 162-65.

131. Id. at 186-96.

132. Miller v. Kimberly-Clark Corp., 339 F. Supp. 1296, 1298 (E.D. Wis. 1971). This case involved the judicial treatment of overly restrictive employment covenants alleged to be “unreasonable restraints on trade” in violation of § 1. Nonetheless, the factors weighed by the court in finding unreasonable restraints in the context of employment covenants bear a striking resemblance to those considered in § 1 counterclaims to baseless trade secret suits. For example, in both contexts courts require a showing that the antitrust defendants possess a substantial market share, and also consider the intensity of competition within the industry. Alders v. AFA Corp. of Florida, 353 F. Supp. 654 (S.D. Fla. 1973), aff’d, 490 F.2d 990 (5th Cir. 1974). The high standard imposed by the courts in determining unreasonable restraints of trade in the context of employment covenants is indicative of the overall reluctance of the judiciary to allow antitrust claims as defensive measures. See also Comment, supra note 60, at 314.

133. 15 U.S.C. § 2 provides in pertinent part: “Every person who shall monopolize or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several states, or with foreign nations shall be deemed guilty of a felony . . . .”

134. L. SULLIVAN, supra note 129, at 134.
intent to obtain a monopoly can be inferred must be activity that harms competitors and lacks any business or social justification.\textsuperscript{135} Dangerous probability of success can be shown by a trade secret plaintiff's substantial market share.\textsuperscript{136}

In many instances the requirement of establishing that the trade secret plaintiff filing the baseless lawsuit has substantial market power is particularly burdensome to the trade secret defendant.\textsuperscript{137} Frequently, the plaintiff instigating the vexatious trade secret suit does not represent a dominant percentage of the market in question, but does have sufficient resources to defend the lawsuit without harming its business operations.\textsuperscript{138}

A further limitation on the use of antitrust as a counterclaim by a trade secret defendant, however, has been the emergence of the Noerr-Pennington doctrine. The Noerr-Pennington doctrine developed from two landmark decisions of the United States Supreme Court: \textit{Eastern Railroad Presidents Conference v. Noerr Motor Freight, Inc.}\textsuperscript{139} and \textit{United Mine Workers v. Pennington}.\textsuperscript{140} "In essence, the doctrine carves out an exception to the antitrust laws where the alleged anticompetitive behavior is an attempt to influence government action."\textsuperscript{141} Because of the paramount importance of the

\textsuperscript{135} \textit{Id.} at 135-36.

\textsuperscript{136} \textit{Id.} at 137-40. Although courts are in disagreement as to how substantial market share is calculated, the majority view is that expressed in \textit{Walker Process Equip. v. Food Machinery and Chemical Corp.}, 382 U.S. 172 (1965). In \textit{Walker}, the court stated the test that: (1) the relevant market in which the antitrust defendant was operating had to be defined and (2) its power in that market determined, before a finding of dangerous probability could be made. \textit{Id.} at 177.

\textsuperscript{137} For example, in \textit{Kobe}, 198 F.2d 416 (10th Cir. 1952), \textit{cert. denied}, 344 U.S. 837 (1952), the trade secret defendant was required to show that there was a "unification and concentration of power and control over a commodity." \textit{Id.} at 423. See \textit{supra} notes 24-36 and accompanying text.

\textsuperscript{138} Interview with attorney James Pooley, \textit{supra} note 6.

\textsuperscript{139} 365 U.S. 127 (1961).

\textsuperscript{140} 381 U.S. 657 (1965).

\textsuperscript{141} Balmer, \textit{supra} note 20, at 531. Balmer notes the following: In \textit{Noerr}, forty-one truck operators and their trade association sued a group of railroads, a public relations firm retained by the railroads, and an association of the railroads' presidents, claiming that the defendants had conducted a publicity campaign aimed at the passage of legislation which would benefit the railroad and harm the truckers. . . . [The Supreme] Court recognized that to construe the Sherman Act to impair the first amendment right to petition the government would raise serious constitutional questions.

\textit{Id.}
first amendment right to petition the government, such activity is immune from antitrust scrutiny.\textsuperscript{142} The Court in \textit{Noerr} cautioned, however, that not all attempts to influence the government are immune from antitrust liability: “There may be situations in which a publicity campaign, ostensibly directed toward influencing government action, is a mere sham to cover what is actually nothing more than an attempt to interfere directly with the business relationships of a competitor and the application of the Sherman Act would be justified.\textsuperscript{143}

Although \textit{Noerr} and \textit{Pennington} dealt with the right to petition the legislative and executive branches of government respectively, the Supreme Court brought the third branch of government, the judiciary, within the scope of doctrine in \textit{California Motor Transport Co. v. Trucking Unlimited}.\textsuperscript{144} In addition, the “sham exception” dictum of \textit{Noerr} became more firmly established in this leading case.\textsuperscript{145}

The development of the sham exception to \textit{Noerr} illustrates the judiciary's recognition of the potential anti-competitive effects of baseless lawsuits. One of the problems faced by the trade-secret defendant in counterclaiming under the sham exception to \textit{Noerr}, however, is the current uncertainty as to the prerequisites for its invocation.\textsuperscript{146} In addition, the defen-

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\item[142.] \textit{Id.} Balmer suggests the following:

The rights to petition the government for redress of grievances and to associate for that purpose are closely related to other first amendment rights of expression . . . . Since constitutional rights supersede conflicting statutes, litigation and other petitioning activity is immune from Sherman Act liability wherever it is protected by the first amendment. \textit{Id.} at 546. \textit{See generally} L. Tribe, \textit{American Constitutional Law} §§ 12-23, 16-11, 16-43 (1978).

\item[143.] 365 U.S. at 144.

\item[144.] 404 U.S. 508 (1972). In \textit{Trucking Unlimited}, the plaintiffs alleged that the defendants had instituted proceedings “with or without probable cause, and regardless of the merits of the cases.” The Court held that the indiscriminate instigation of lawsuits on the part of competitors could be antitrust violations if they involved “abuse” of the judicial processes. The Court further specified that such “abuse” might be found if the defendants by their actions effectively closed “the machinery of the agencies and the Courts” to their competitors or if there was a “pattern of baseless, repetitive claims” involved. In reaching its conclusion, the Court stated that “the fact that such suits were baseless is evidence that they were instituted in order to drive a competitor out of business rather than to assert a legitimate legal right.” \textit{Id.} at 513.

\item[145.] Balmer, \textit{supra} note 20, at 532.

\item[146.] \textit{Id.} at 535. For example, lower courts continue to differ over whether the antitrust plaintiff must show that numerous baseless suits have been filed, or whether a single sham suit is sufficient to invoke the \textit{Noerr} sham exception. \textit{Id.} at 535-36. For
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dant has the burden of proving that the trade secret plaintiff's actions, which ostensibly appear as petitioning activity, are not genuine efforts to influence governmental action, but rather are nothing more that an attempt to interfere with the business relationships of a competitor.147

Moreover, even when the trade secret defendant proves that the lawsuit is baseless, it does not in itself establish liability. The defendant must still prove the usual elements of an antitrust violation under sections 1 or 2.148

One of the major incentives to litigate under the antitrust laws is the prospect of recovering treble damages.149 In order to recover treble damages, however, the trade secret defendant must prove that the trade secret plaintiff's violation of the antitrust law caused an injury to the defendant's business or property.150 A business' record of past profits is often the best evidence it has to prove loss of profits.151 Unfortunately, the trade secret defendant is frequently a new business with no record of past profits. Hence, it is much more difficult for the new venture to make out a claim for loss of profits with sufficient certainty.152 Moreover, the damage suffered by the defendant as a result of the baseless lawsuit often consists of intangible items such as the loss of financing opportunities or the loss of an opportunity to enter a particular market.153 However, the courts appear reluctant to award damages for the deprivation of an opportunity.154

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147. Clipper Express v. Rocky Mountain Motor Tariff Bureau, Inc., 674 F.2d 1252 (9th Cir. 1982).
148. Id. at 1269.
149. Section 4 of the Clayton Act, 15 U.S.C. § 15 (1976), provides this relief to any person who has been "injured in his business or property by reason of anything forbidden in the antitrust laws . . . ." The intent of Congress in providing for the treble damage recovery was twofold, namely, to create an incentive for private civil enforcement, and to establish a punishment significant enough to act as a deterrent to the prohibited behavior. Cf. L. Sullivan, supra note 129, at 770 (the effect of treble damages).
150. See L. Sullivan, supra note 129, at 785. Damages must be established with reasonable certainty and may not be based on mere speculation and conjecture. Id.
152. Id.
153. R. Bork, supra note 19, at 348.
154. C. McCormick, supra note 151, at 104-05.
The potential anti-competitive abuse which is created by trade secret litigation is not easily resolved. One possible approach in dealing with the problem of baseless trade secret lawsuits is to instigate greater judicial control over the discovery process. The focus of this comment, however, is directed towards the creation of a defensive counterclaim which would significantly increase the risk to a plaintiff bringing a baseless trade secret claim. Accordingly, the following discussion explores policy considerations which support the creation of additional measures to deter the use of the litigation process as an anticompetitive business tool.

V. GENERAL POLICIES SUPPORTING THE CREATION OF A NEW BUSINESS TORT

A. The Policies Behind the Antitrust Laws

The intent behind the antitrust laws is "to establish a regime of competition as the fundamental principle governing commerce in this country." However, as pointed out by the United States Supreme Court in Brown Shoe Co. v. United States, "we cannot fail to recognize Congress' desire to promote competition through the protection of small, viable, locally owned businesses." This concern with protecting small businesses from predators in the marketplace has been a controversial, yet continuing, aspect of antitrust policy. "Also surfacing at times is a concern for fairness—the idea that the antitrust laws are intended to set equitable rules for the competitive game, as well as to promote the game itself."

The emergence of the sham exception to Noerr-Pennington serves as a primary illustration of the concern for fairness as an overriding objective behind the antitrust laws. Moreover, sham litigation aimed at harassing or eliminating a competitor can have an immediate and severe impact on com-

155. Interview with attorney James Pooley, supra note 6.
158. Id. at 344.
161. See supra notes 139-47 and accompanyng text.
petition. By striking directly at a competitor via the judicial process, it is possible for a firm to cause more harm to competition in the same market than it might through exclusive-dealing, predatory pricing, or other frequently discussed anti-competitive activities. This is especially true when the target of the lawsuit is a small company. More significantly in terms of the antitrust laws, an established company can inhibit competition, reap excessive profits, and retard innovation by preventing or delaying the entry of new firms into the market.

The policies underlying the antitrust laws clearly support a vigorous attack on vexatious lawsuits such as those described in the trade secret area. Increasing the risk to a plaintiff pursuing a baseless trade secret claim would decrease the use of such lawsuits as an anti-competitive tool and help insure more meaningful protection for smaller competitors. Thus, four fundamental policies behind the antitrust laws, (1) prevention of large concentrations of economic and market power; (2) the promotion of the competitive process; (3) the maintenance of a fair standard of business conduct; and (4) desirable economic results, would all be furthered by increasing the liability for baseless litigation in a trade secret claim.

B. The Policies Behind the Unfair Competition Laws

Unlike antitrust law, "unfair competition law restrains the forces of competition by circumscribing the boundaries of

162. R. Bork, supra note 19, at 348-49.
163. Balmer, supra note 20, at 553; R. Bork, supra note 19, at 357.
164. Balmer, supra note 20, at 553.

While the additional costs of doing business imposed on a smaller firm by a dominant firm's predatory pricing or territorial allocation policy may reduce profits and eventually squeeze the small firm out of the market, the added costs bear at least some relation to the firm's sales or share of the market. . . . Predatory litigation, on the other hand, imposes high fixed costs, which are independent of a firm's market position.

Id.

165. Balmer, supra note 20, at 554.
166. One author has asserted that more predation is accomplished via litigation than through below-cost pricing. R. Bork, supra note 19, at 357.
acceptable competitive behavior." Nonetheless, the development of the unfair competition causes of action recognizing unlawful forms of interference with economic relations illustrates a concern with promoting fairness in the marketplace similar to that underlying the antitrust laws.

In examining the policies behind the unfair competition laws, it must be pointed out that the definition of unfair competition is as amorphous as that of trade secrets. Unlike the antitrust laws, which are embodied primarily in federal and state statutes, the unfair competition laws are largely creatures of common law. In attempting to find guidelines for unfair competition, judges have referred to such things as "the rules of fair play," acts which are "contrary to good conscience," "means which shock judicial sensibilities," "the morals of the marketplace," "the decent thing to do in trade," and "principles of honesty and fair dealing." Thus, although hardly a clear definition, it can be said that commercial morality is the touchstone for unfair competition law.

"Unfair competition law has developed as a flexible legal instrument to control the excesses of a market system in the throes of constant adjustment as it adapts itself to economic, political and social changes." Accordingly, apart from the specifically labelled forms of unfair competition, such as misappropriation of trade secrets and interference with contractual relations, the law also recognizes a residual equitable power in judges to create remedies in new situations, whether the judge labels what he is prohibiting as "unfair competition" or just "tort." The standard of fairness in competition has been arrived at through a long process of case-by-case decisions that characterizes the common law today. A particularly appropriate example of this power is the California Legislature's enactment of Civil Code section 3369 enjoining

168. McBrearty, supra note 7, at 421.
169. But see McBrearty, supra note 7, at 421.
171. Id. at 13.
172. Id. at 22.
173. Id. at 18-19.
174. Id. at 17.

1. Neither specific nor preventive relief can be granted to enforce a penalty or forfeiture in any case, nor to enforce a penal law, except in a case of nuisance or as otherwise provided by law.
unfair competition and the broad interpretation given this statute in *Barquis v. Merchants Collection Ass'n.* 176

In *Barquis* the California Supreme Court found a collection agency's practice of knowingly and wilfully filing actions in improper counties to be an unlawful business practice in violation of California Civil Code section 3369.177 Central to the *Barquis* court's conclusion was the case of *American Philatelic Soc. v. Claibourne* 178 where the court observed: "when a scheme is evolved which on its face violates the fundamental rules of honesty and fair dealing, a court of equity is not impotent to frustrate its consummation because the scheme is an original one." 179 Thus, it is well established that the policies underlying the unfair competition laws support the creation of a new cause of action designed to deal with the problem of vexatious trade secret litigation as an unfair business practice.

### C. Policies Underlying the Tortious Litigation Laws

The interest in freedom from unjustifiable litigation receives protection in causes of action known as malicious prosecution and abuse of process.180 Although both are based on the same general policy, namely, the desire to eliminate tortious litigation, these two torts are aimed at the elimination of two very distinct forms of abuse.

Malicious prosecution actions are designed to prevent

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176. 7 Cal. 3d 94, 496 P.2d 817, 101 Cal. Rptr. 745.
177. *Id.*
178. 3 Cal. 2d 689, 46 P.2d 135 (1935).
179. *Id.* at 698-99, 46 P.2d at 140.
180. W. PROSSER, supra note 83, at 834.
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fraud and deceit in the context of the litigation process. In contrast, "[a]buse of process rests on the theory that no legitimate social interest is served by allowing the employment of even meritorious litigation by the defendant when his real aim is a nonadjudicatory objective."  

The careful analogies made by commentators to malicious prosecution and abuse of process in analyzing the Noerr-Pennington sham exception illustrates that inherent in the policies behind these laws is a desire to prevent the use of the litigation process as an anti-competitive tool. Therefore, it can safely be said that the principles behind the tortious litigation laws provide further support for the instigation of a more vigorous attack on the problem of baseless trade secret claims.

VI. PROPOSAL FOR A MORE VIGOROUS ATTACK ON VEXATIOUS TRADE SECRET LITIGATION

As this comment has emphasized, the present defensive tactics available to defendants fail to act as sufficient deterrents against baseless trade secret litigation. Clearly, the policies underlying the antitrust, unfair competition, and tortious litigation laws support the conclusion that the use of the baseless trade secret claim to prevent or delay a legitimate competitor from entering the market is an unacceptable business tactic. Accordingly, the courts and legislatures are granted broad discretion to protect against any business practice they find unfair.

Given this discretion, this comment proposes that a new cause of action be delineated under the unfair competition laws. The underlying purpose of the cause of action would be to deter the use of baseless trade secret claims as a method of preventing or delaying new competitors from entering the market. The following elements for this new cause of action are proposed: (1) lack of probable cause for the instigation or pursuit of the trade secret misappropriation suit; (2) the existence of an ulterior purpose in pursuing the trade secret suit;

182. Id.
183. See, e.g., Balmer, supra note 20, at 555-57.
184. See supra notes 156-83 and accompanying text.
185. See supra notes 173-79 and accompanying text.
and (3) improper acts by the trade secret plaintiff during the course of the trade secret litigation which result in harm to the trade secret defendant.

The theory behind the first two elements, lack of probable cause and collateral purpose, is to make "intent" the key focus of the cause of action. To illustrate the necessity of a focus on intent, the problem in many baseless trade secret claims is that a certain level of discovery is often necessary before it can really be determined whether there is probable cause to believe a trade secret exists.186 The abuse often occurs when, after conducting a certain amount of initial discovery, the plaintiff finds there is no real merit to his trade secret claim. Nonetheless, the trade secret plaintiff continues to pursue the claim as a tactic to tie up and drain an incipient competitor's resources.187 In this situation the ulterior purpose can be inferred from the continued pursuit of extensive discovery motions after a determination that the claim has no merit. Further, "probable cause" is an important ingredient in a cause of action against a plaintiff bringing a baseless suit because the plaintiff should only be deterred from pursuing a meritless suit.

The purpose behind the third element, an improper act by the trade secret plaintiff during the course of the litigation, is to provide an additional basis for inferring the existence of an ulterior purpose. This act would not be limited to an improper use of the judicial process, as under abuse of process. Rather, it would include any act by the trade secret plaintiff which could be deemed an improper and unfair business practice under the facts and circumstances surrounding the case. For example, liability would attach where the trade secret plaintiff contacts the trade secret defendant's potential customers and suppliers and provides false or misleading information regarding the trade secret claim and thereby dissuades them from dealing with the defendant.188

In addition to these elements, there are two additional features of this cause of action which are critical to its potential as a deterrent to abusive trade secret litigation. First, the new cause of action should be litigated simultaneously as a

186. Hutter, Pretrial, supra note 14, at 43.
187. Interview with attorney James Pooley, supra note 6.
188. This hypothetical is based on the factual situation in Mach-Tronics v. Zirpoli, 316 F.2d 820 (9th Cir. 1963). See supra notes 23-29 and accompanying text.
counterclaim to the baseless trade secret cause of action. This will assure the trade secret defendant a meaningful remedy, that is, the chance to recover its losses before going bankrupt defending a baseless lawsuit.

Second, an award of punitive damages under this cause of action should be based on a test balancing the various competing interests involved. Under the current traditional scheme, the test for awarding punitive damages focuses exclusively on the acts and intent of the trade secret plaintiff. For example, the current practice in many courts is to instruct the jury to award punitive damages only where it finds that the defendant's conduct was outrageous and evidenced "evil motives or . . . reckless indifference to the rights of others." Not surprisingly, juries have been reluctant to award punitive damages when given such an instruction.

In lieu of the current approach to punitive damages, a test is proposed which, in addition to examining the conduct and intent of the trade secret plaintiff, would instruct the jury to consider the social interests involved. Thus, the jury would balance the employee's interest in economic freedom and mobility against the employer's right to protect its inventions and society's interest in encouraging innovation. In addition, the jury would consider the interest in promoting private civil enforcement and the value of punitive damages in acting as a deterrent to undesirable business practices.

One of the merits underlying punitive damages is the flexibility allowed in determining awards. The jury is allowed to consider the financial status of the defendant in determining the amount of the award. The importance of this factor is that it eliminates any profit incentive behind the pursuit of a vexatious lawsuit to eliminate a competitor. The potential liability in punitive damages can be made to outweigh the benefit involved in eliminating or harassing a competitor.

189. In this area punitive damages are crucial in providing incentives for private civil enforcement of serious misconduct and in expressing society's disapproval of undesirable conduct and deterring such conduct in the future. Maier & Roberts, supra note 124, at 648.
190. See supra note 124.
191. See supra note 7.
192. While the "balancing test" suggested herein is original, it is based in part on the ideas advanced in an article suggesting an alternative approach to punitive damages. See Maier & Roberts, supra note 124, at 666-69.
193. Id. at 668.
Finally, it is important to illustrate how this proposed cause of action will circumvent the limitations inherent in existing counterclaims available to the trade secret defendant. First, the punitive damages available under the proposed cause of action will provide a recovery that will adequately compensate the trade secret defendant for all its losses without imposing on it the burden of proving "substantial market power" or an "unreasonable restraint on trade" under the antitrust laws. Second, it will provide recovery for intangible losses such as the loss of an opportunity to enter a market, a loss for which the trade secret defendant is not compensated under current damage laws. Third, by focusing its elements specifically on the elimination of predatory baseless litigation, the proposed cause of action circumvents the current limitations to recovery under both existing business torts and the claim for abuse of process. These include the requirement of identifying the loss of particular transactions under trade defamation, the need to establish the existence of a contract under interference with contractual relations, the problems of proof involved in establishing the existence of a "prospective economic advantage," and the requirement under abuse of process that the abusive act in question be the misuse of a specific form of legal process, such as an injunction. Finally, the availability of this cause of action as a simultaneously litigated counterclaim eliminates the inherent problem under malicious prosecution of providing recovery when it is no longer meaningful to the trade secret defendant.

VII. Conclusion

As noted by some commentators, "predation through the misuse of governmental processes appears to be a common but little-noticed phenomenon." As this comment has pointed out, the above observation is particularly true with regard to baseless trade secret lawsuits. Much of this misuse is unreachable by law because of limitations in existing causes of action available to a trade secret defendant. Nevertheless, much predation of this type can be halted.

Adoption of the proposed cause of action will help eliminate baseless litigation in the trade secret context. By identi-

194. R. Bork, supra note 19, at 364.
flying those elements of a trade secret claim that are without
merit, trade secret defendants have a viable method of pro-
tecting their new businesses. In so doing, we can ensure the
integrity and efficiency of the judicial process.

Elizabeth Smith