

SO YOU WANT TO SUE FOR TRADE SECRET THEFT?

By James Pooley

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If you believe you may be a victim of trade secret theft, unless the facts proving misappropriation are clear and a serious loss is imminent, proceed cautiously before filing a lawsuit. Investigate the situation with your legal counsel (this protects the process against disclosure) and carefully examine your options. Keep in mind that most trade secret disputes are driven by emotions: you may feel anger and betrayal that can cloud your judgment. And the defendant might respond with indignation that fuels a vigorous defense, no matter how compelling the facts might look to you.

During the investigation phase, consider these questions about a possible lawsuit:

What are your goals for the litigation? To stop the misuse of critical information? To stop the solicitation of employees or customers? To stop a key employee from joining a competitor? To get compensation? Thinking through the answers to these questions will help you formulate a sensible strategy. And think it all the way through, by considering what an acceptable settlement might look like. Beware of the wish to engage in battle for the sake of causing harm to the enemy; you should be prepared at each stage of conflict to know what it would take for you to be satisfied and withdraw.

Are all senior management in your organization on board and committed to the legal process? It can affect them directly in ways that may not be immediately apparent, and you will need to have broad support for the dedication of necessary resources.

Do you have a thorough, detailed understanding of exactly what are your relevant trade secrets? Have you done any sort of review to inform and implement an information protection program? What is the state of your policies and procedures? Can you say with assurance that the company has exercised reasonable efforts to protect its data? If you had to identify any areas where you may have been lax, what would those be?

Be sure you understand the full range of costs that you will be facing. Legal fees will only be a part of that, and even though they can be substantial there are many other, less obvious costs to engaging in trade secret litigation:

- The time that will have to be spent by managers and other professionals, taken away from their productive work to help educate lawyers, review documents and attend depositions.

- Even when these people are not directly engaged, they (and perhaps the entire workforce, seeing this as a strangely entertaining soap opera) will be distracted and less productive.
- Morale may suffer among staff who believe that the company is overreacting; although the effect could also be positive, if they feel some resentment towards the defendants.
- Customers may be irritated by any disruptions in service and by having to participate in “third party discovery.”
- There may be negative publicity about the company’s loss of data or people.
- The defendants may file counterclaims against you, alleging some form of anticompetitive behavior.
- The secrecy of your information may ironically be compromised further through the litigation process, where so many different people have to handle or store it, or it has to be revealed in open court.
- It may turn out that you were wrong in concluding that the defendants did what they did. In one recent case brought by Renault, the company was misled by its investigators, firing and suing executives only to have to reverse course, awkwardly, weeks later.
- Even if your basic claims are correct, trade secret cases are not perfectly controllable, and they can turn against you for a variety of reasons, such as a witness that you didn’t know was lying, or some other currently hidden but embarrassing fact emerges.

Given all these costs, you should never begin litigation without careful consideration of the alternatives. Even though you feel disappointed and perhaps cheated or resentful, is there a productive way forward for the company to turn the situation into a positive relationship, perhaps even a collaboration? If not, is there some action, such as a strongly worded warning letter, or a process of private mediation, that could result in your getting what you need, if not all that you want?

If after all of that thorough deliberation you conclude that a lawsuit is necessary, then you should develop a clear plan with your lawyers, identifying how you expect to achieve your objectives, the risks involved (with related contingency and mitigation plans), and the possible inflection points where an agreed resolution might be possible. Should you serve a demand letter first, or go straight to a legal filing, for the “shock and awe” effect? Should you ask the court for immediate, preliminary injunction orders, or wait to get discovery, so that you can better plan your presentation? Should you file suit in the local state court, or are you dealing with defendants from a distant state or foreign country, so that you might want to file in federal court under the new Defend Trade Secrets Act? Are there claims other than trade secret theft that you should be asserting, or that you want to avoid, for tactical reasons? Is yours such a clear case of theft that you might want to ask the authorities for a criminal prosecution (bearing in mind that if they take it you will lose control over its outcome)?

Trade secret litigation presents a cascade of strategic and tactical questions, much like other commercial disputes. But in comparison to most business conflicts it can feel more like a marital divorce. Often, each side feels convinced that the other is morally wrong. Fortunately, our legal system, which allows for discovery of the facts before trial, gives the parties an opportunity to reconsider their positions. The challenge of managing trade secret disputes lies in maintaining focus on the business goals and objectively assessing the evidence as it unfolds.