How To Respond To a Claim of Trade Secret Misappropriation

August 16, 2017 by James Pooley

It's never good to get a letter accusing you of taking someone else's property, or worse a lawsuit that can distract or disrupt your business. The key to a good outcome is to remain calm and make sensible decisions. This may be a challenge because the charges against you are freighted with emotion. You are said to have acted willfully, with malicious intent. You need to be stopped and punished because you are a thief and a fraud. But don't react to the rhetoric.

Unless your company is large and the claim against you is seriously misplaced, your objectives should be simple: bring down the temperature, engage in discussions, and find a way out of the dispute. Of course, you may be facing an irrational opponent and have no choice but to fight. However, in my experience trade secret claims very often result from misunderstandings (in one case a casual joke in passing at an airport led to over a year of intense legal proceedings), and you can end up a hero by keeping a cool head while others are driven by emotions.

Unlike the plaintiff, you may not have much time to prepare your reply, particularly if the claim comes in the form of a lawsuit without a previous warning letter. In the exigency of an immediate demand for an injunction, for example, you will have to multitask in several important areas. You must establish lines of communication and control, to organize your response. You have to secure the relevant documents and electronic records, to avoid claims of destroying evidence. And you must try as best you can to gather the relevant facts, not just to show why you are right, but also to understand the plaintiff's likely motives and objectives, and the personalities who drove the decision to sue.

Naturally, you should confer with your lawyer and other advisors to define your strategy. But in general, as a defendant your primary goal should be to solve the problem and end the legal fight quickly if possible, since you have many other more productive things to do. Usually this requires a carefully measured, calming first response coupled with a push for early discussions. Perhaps one of your board members can approach a

counterpart in the other company and have a helpful conversation. Consider whether there is some action you can take – such as moving an employee to a less sensitive position – that might help build confidence in your good intentions. As long as you are able, continue looking for ways to encourage communication, and keep an open mind about possible settlement options.

If the dispute begins with a warning letter, then typically your reaction should be to buy time to investigate and plan, asking for meetings and exploring possible solutions outside the track of litigation. It is usually difficult for angry disputants, especially early in the process, to see all the possible ways in which the matter could be resolved to everyone's satisfaction. This is why "alternative dispute resolution" is so well suited to trade secret fights, where emotional drivers can be working beneath the surface to obscure the rational possibilities. Begin by offering to meet. Explore the idea of involving a facilitator, perhaps a senior retired executive from the industry, or a professional mediator. Consider making specific suggestions that might form part of an ultimate resolution, such as the appointment of a technical expert to examine and report on your operations, rather than going through the inefficient and disruptive court process at this point.

If despite your best efforts you can't find a way to avoid a legal fight, then you need to be ready to shift to a vigorous defense, perhaps also asserting counterclaims, in order to improve the balance of risk between the parties. Part of this is about legal strategy and tactics, but those decisions rely on having comprehensive knowledge of the facts. Therefore, you will usually need a deeper investigation than you may have been able to do at the outset. This should be done under the direction of experienced legal counsel, in order to avoid mistakes and to preserve confidentiality.

Some cases can be transferred into private arbitration, which can be less expensive and more conducive to settlement. For example, if the case grew out of your hiring employees from a competitor, you should examine their employment contracts to see if they contain an arbitration clause. Even though your company was not a party to that contract, some courts have held that deference to the strong public policy in favor of arbitration should allow someone in your situation to take advantage of it.

Another early item on your checklist should be possible insurance coverage for defense of the lawsuit. While specific coverage for such claims is rare, some defendants have been successful in demanding coverage under their general business liability policies.

Turning to the substance of the litigation, these are the traditional defense themes:

- **The claimed trade secrets don't qualify, because the information is generally known or easily found, it represents individual skill, or it provides no real competitive advantage.**

- **The information hasn't been used by the defendant.**

- **The plaintiff has failed to make reasonable efforts to protect the information's confidentiality.**

- **The claim is merely a cover for the plaintiff's intention to harm or eliminate competition.**

From a tactical perspective, in litigation, just as in negotiations, you need time to catch up and make sure that you have a clear understanding of the facts. So absent some good reason to do otherwise, it makes sense to take advantage of any procedural time extensions, especially early in the case. Apart from that general observation, there are two important tactics that you should consider.

First, as soon as possible you should demand a clear definition in writing of the trade secrets that the plaintiff believes have been taken. Remember that secrets, unlike patents, are not examined by a government agency and usually don't have to be described until they are part of a lawsuit. You need to force that description, and if necessary to repeatedly challenge what the plaintiff proposes. You are entitled to have a definition of the claimed secrets that is specific enough to compare to what is in the public domain and to your own data or products. Without this discipline in the case, the plaintiff will be inclined to make the dimensions of its trade secrets match what it finds out in discovery from you.

Second, you should engage in vigorous discovery against the plaintiff and others who have a relationship with the plaintiff (such as customers,

suppliers and investors) and who may have information relevant to the claims. The plaintiff took the decision to start this fight, and it is only fair that it feel the heat, too. And it is usually through discovery – which is why it bears that name – that you come upon facts that can help build a compelling defense.

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