

How to Lose a Guy Case in 10 Days: The Pitfalls of Commencing Trade Secrets Litigation without Following Best Practices

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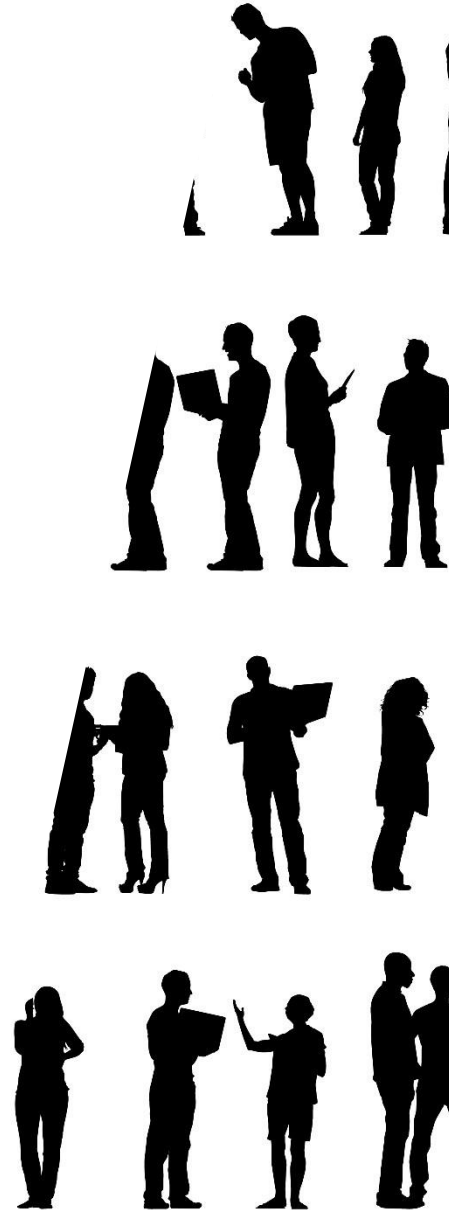
The 2022 Economy and Workforce

- A record 50.5 million people quit their jobs in 2022!

The Great Resignation

- More companies fighting to fill quality jobs
- More leverage for the employees
- Greater likelihood that employees will leave their jobs for better pay or benefits (***loyalty is low right now***)
- Companies with more money to pay attorneys to file or defend against unfair competition lawsuits

Companies should be aware of unfair competition considerations in the present economic climate!



Pitfall 1: Relying Solely on Trade Secrets Law without Having other Legal Bases of Protection

- Companies sometimes become ***completely reliant*** upon trade secrets law (statutory) because they have not established other bases for enforcing rights
- Proving trade secrets misappropriation is a ***high standard***
- Not having supplemental protections ***erodes your ability to set up a trade secrets claim***

Pitfall 1: Relying Solely on Trade Secrets Law without Having other Legal Bases of Protection

- **Contractual protections**

- NDAs
- Restrictive covenants (non-competes and non-solicits)
- IP provisions

- **Fiduciary duties**

- Defined job roles
- Conflict of interest provisions
- Departing obligations

Pitfall 2: Failing to Understand What is and is Not a Trade Secret

- ***What is a “trade secret?”***
- **Type** – Non-public ***business information***
 - Not embarrassing conduct protected by an NDA
 - Formulas, programs and methods; customer and supplier lists; financial data and business internal strategies
- **Value** – Sufficiently ***secret*** to derive ***economic value***, actual or potential, ***from not being generally known*** to others who can benefit
- **Safeguarding** – Subject of ***efforts that are reasonable*** under the circumstances to maintain secrecy or confidentiality

Pitfall 2: Failing to Understand What is and is Not a Trade Secret

- How does this *play out practically*?
- **Compliance**
 - Not understanding what is a trade secret leads to not being able to safeguard it, or contractually protect it
- **Litigation**
 - Not being able to identify it leads to an inability to persuade a court that it needs to be protected



Pitfall 3: Failing to Adequately Safeguard your Trade Secrets

- A party must use reasonable efforts to safeguard the secrecy of a claimed trade secret
- ***What is reasonable?***
- Depends on the circumstances:
 1. the ***type, size and resources*** of the business
 2. the ***value*** of the claimed trade secret
 3. ***industry standards***

Pitfall 3: Failing to Adequately Safeguard your Trade Secrets

The Triangle Offense

- **Owners / In-House Counsel** (the decision-makers and drafters of contractual safeguards)
- **HR Department** (the people dealing with policies, employment agreements and exits)
- **IT Department** (the people who handle technical systems and safeguards)
- ***All three roles must be on the same page regarding safeguarding and pre-litigation game plans***

Pitfall 3: Failing to Adequately Safeguard your Trade Secrets

Best practices (“People, Contractual, Technical”)

- Company Policies Regarding Confidentiality
- The Use of Nondisclosure Agreements
- Employee Training
- Access on a Need-to-Know Basis
- Document Labeling, Password Protection and Encryption
- Failure to Heed Internal Recommendations
- The Company Exit Plan
- A Well-Vetted Hiring Process

Pitfall 3: Failing to Adequately Safeguard your Trade Secrets

- The best way to avoid instances of unfair competition is to *maintain a healthy workplace*
- *The happier that employees are, the less likely that they are to leave*
- Best practices:
 - *Enforce policies* fairly (and train people on them)
 - *Compensate* those who are valuable to your business
 - *Incentivize* above and beyond work
 - *Discipline* or remove cancerous people



Pitfall 4: Failing to Utilize a Proper Employee Exit Plan

- Failing to have a proper exit plan results in ***trade secrets walking out the door with a diminished ability to enforce rights***
- What do you do when a key employee walks out, provides notice of resignation or is terminated?
- ***Three Steps***
 - Step 1 – ***Follow the Exit Plan***
 - Step 2 – ***Collect Devices and Preserve***
 - Step 3 – ***Conduct Forensics***
- ***You may not follow all three steps but you always must follow Step 1, should usually follow Step 2, and in certain scenarios follow Step 3***

Pitfall 4: Failing to Utilize a Proper Employee Exit Plan

- Companies should have a game plan that should be followed whenever a key employee is resigning or has been terminated
- Components of an exit plan
 - **Remind** employee of contractual obligations
 - Get a **signed acknowledgement**
 - **Collect** all company property (including devices)
 - **Shut off** access to confidential information
 - Make sure all **final compensation** is paid
 - Fact find as to **new employer**

Pitfall 5: Failing to Appreciate the Necessity of Using a Forensic Consultant

- Negatives of not having a forensic consultant:
 - *Damage to the evidence / spoliation*
 - *Lack of experience*
 - *Unpreparedness to testify*

Pitfall 5: Failing to Appreciate the Necessity of Using a Forensic Consultant

- Places where misappropriation occurs – ***a good forensic consultant knows where to look:***
 - Emails and texts
 - Cloud systems and chatrooms
 - Shared databases
 - External drives
 - Photographs
 - Internet histories
 - Remote and work metadata
- The goal is to “***connect the dots***” between the claimed trade secret and the misappropriation



Pitfall 6: Failing to Understand the Categories of Individuals who Commit Trade Secret Theft

- Understand the three categories of people who traditionally cause the most unfair competition headaches:
 - ***Sales people*** (those who interface with your customers)
 - ***Technical people*** (those who develop information technology and intellectual property for you)
 - ***Managers and Principals*** (those who intimately know your business and strategies)
- ***Understanding these categories can help inform what steps need to be taken***

Pitfall 7: Failing to Utilize the Speed of a Case to Your Advantage

- The ***speed of a trade secrets case is crucial***, and understanding it is key to being successful
- The speed is a ***direct message to the judge***
- ***Plaintiffs*** fail to appreciate the necessity of pushing a trade secrets case forward ***with deliberate speed***
- Defendants fail to recognize the necessity of ***slowing down a trade secrets case***

Pitfall 8: Failure to Understand the Dynamics of Preliminary Injunctive Relief

- One of the most important decisions that every plaintiff must ask itself is: ***preliminary injunctive relief or regular speed of litigation?***
 - The preliminary injunctive road could lead to a quick victory or settlement, or a spectacular loss early in the case, with significant upfront expenses
 - The regular course of litigation road can be a slow burn for putting pressure on the defendant and seeking discovery, but it usually does not make it to the finish line and potentially allows competitive advantage to be lost

Pitfall 8: Failure to Understand the Dynamics of Preliminary Injunctive Relief

- In making this key decision, the following factors should be considered
 - How strong is the ***evidence of improper acquisition, use or disclosure?***
 - What about ***motive?***
 - ***Can I identify*** the trade secrets and also show ***proper safeguarding?***
 - Is there ***irreparable harm*** here?
 - What is the ***likelihood that unfair advantages*** are being taken by others?



Pitfall 9: Failing to Understand Pressure Points of Discovery

Goals of Discovery for Plaintiff

- Understand *what has happened to trade secrets* – where they have gone, for what purpose they are being used, and who are the bad actors

Goals for Discovery for Defendant

- Understand what plaintiff claims is a trade secret and why (how it was created and what its value is)
- Understand how plaintiff safeguards information (what are the people, technical and contractual steps)
- *Discovery can not only be an effective way of learning information, but also can be a way to get the other party to realize the costs of pursuing or defending a case*

Pitfall 10: Failing to Understand the True Objective of Litigation

- The true goal of misappropriation *is not to make money* – the cases rarely ever do
- Rather, the goals are the following:
 - ***Protect*** your trade secrets
 - ***Establish a record*** that you safeguard them
 - ***Stop the defendant*** from misappropriating your trade secrets
 - ***Limit damage*** to your business

Understanding this dynamic will help with decision-making both before and during a case

The End

Any Questions?

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