

10 Steps To Take After Trade Secret Theft Accusation

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With the significant rise in trade secret theft over the past decade, much has been written touting best practices for corporations to protect their trade secrets from rogue employees and third parties. While protecting the company's own "crown jewels" should certainly be a priority, much less has been written about how companies should respond when they are accused of stealing trade secrets. Even good employee on-boarding procedures and other precautions are not foolproof. Defending against such claims can prove very costly for the company, both in terms of time and money. Often more importantly, being accused of trade secret theft can impact the company's reputation with suppliers and customers, and its good will with the public.



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Below are 10 considerations for companies to consider when responding to accusations of trade secret theft. Most often, the in-house lawyer who receives the initial inquiry will have no warning or prior knowledge of the issue. So, with the below, time is of the essence.

Finally, it should be emphasized that there is no one-size-fits-all solution or playbook. Every situation is different and these considerations are just that — considerations — to be used or not depending on the facts and the magnitude of the issue.

1. Investigate Immediately

When a company is accused of trade secret theft — usually via a letter from the alleged victim's counsel or a draft or actual complaint — the accused company must act quickly to internally investigate the veracity of the claims. Failing to do so could result in spoliation of evidence, an increase in potential damages (including attorneys' fees), and the accuser's decreased appetite for settlement. Conversely, acting quickly to investigate the claims can greatly increase the chances of an early settlement of the matter with minimal impact on the company's reputation.

In most cases, the third party alleges that one of its former employees who now works for the accused has brought trade secrets to his or her new employer. Depending on the allegations, a small group comprised of members of the company's legal and human resources teams should interview the key internal witnesses about the allegations. That team should also work with the company's IT department

and external vendors to conduct any forensic testing of the company's email and other systems to determine if there is any evidence of the alleged trade secrets on the company's network and/or evidence of efforts to steal or transmit the alleged trade secrets.

Whether the investigative team should involve outside counsel depends on the circumstances. One consideration is the internal resources available; another is the magnitude of the issue. Where a criminal investigation is possible, the company should consider the impact on potential exposure of being able to demonstrate that it conducted an internal investigation that was not only prompt, but objective and independent.

2. Assess the Merits of the Claim

The internal investigation should be designed to efficiently assess whether there is any merit to the allegations. Whether there is merit to the allegations — and exactly how much merit — will dictate the response of the accused company. This analysis should be conducted in partnership with counsel (in-house or outside) who is knowledgeable about the applicable trade secret laws, as well as common related claims like tortious interference, conversion and unjust enrichment. The potential for criminal exposure must also be assessed.

3. Quarantine the Problem

If the internal investigation reveals anything other than the complete falsity of the allegations, the company must act quickly to minimize the potential damage as it continues to investigate and assess. Potential actions include denying the offending employee(s) access to the alleged trade secrets, and temporarily shutting down any projects or products that arguably make use of the alleged trade secrets. The magnitude of the responsive actions should be driven by a variety of legal and non-legal considerations, but a company that does nothing or unduly hesitates in the face of significant allegations is likely at greater risk once it is officially on notice that there may be a problem.

4. Open Lines of Communication

The exact point at which the company initially responds to the third party is wholly dependent on the facts of the case, but the timing of that step should be considered from the outset. Most likely, the accused company will want to at least start the investigation prior to responding to the third party. However, in many cases, contacting the third party early in the process to communicate that the company takes the allegations seriously, is investigating the matter, and will respond in a timely fashion can set the appropriate tone for future negotiations. This is especially true where there is some kernel of truth to the allegations and the company may be seeking a negotiated settlement down the road. Where law enforcement is already involved, similar communications with the appropriate authorities is likewise often prudent.

5. Request Evidence From Accuser

In many cases, the initial allegations leveled by the accuser are vague and make it difficult for the company to know exactly where to start its investigation. Such vagueness is sometimes intentional, but it is often due to the fact that the accuser does not have a firm grasp on what it believes was stolen, or may simply be lashing out because a valued employee left to join a competitor.

One strategy is to respond quickly to the accuser and ask it to share whatever evidence it has of the

alleged misappropriation. Doing so may help the company “smoke out” the seriousness of the accuser’s claims. If the accuser is unwilling or unable to provide further detail, that may be an indication that it does not have real evidence of misappropriation. Conversely, if it has damning evidence of misappropriation by your employee(s), it is usually best to know that as soon as possible to guide the company’s response.

6. Ensure Appropriate Internal Reporting

It is impossible to predict exactly who within the company will first learn of the allegations, but the company needs to ensure that the appropriate people are informed. For example, if a letter from a third party lands first on the desk of in-house intellectual property counsel, he or she will need to inform the general counsel and likely in-house employment counsel right away, as well as the managers of the affected business. Alternatively, if someone in human resources is served with a complaint, he or she needs to involve appropriate legal counsel immediately. To the extent companies do not already have a process in place for internal notification of potential lawsuits, now is a good time to establish such a protocol before something slips through the cracks.

7. Apply Appropriate Disciplinary Action

If the investigation reveals evidence of misappropriation by one or more employees, the company should take prompt disciplinary action against the offending employee(s) up to, and including, termination, depending on the seriousness of the particular employee’s offense. Applying appropriate discipline is important for multiple reasons: (1) it demonstrates to the accuser (and law enforcement) that the company takes the issues seriously and may assist in negotiating a settlement of the matter without additional litigation, (2) it is an appropriate sanction for the offending employee and hopefully prevents similar behavior by him or her in the future should he or she remain employed, and (3) it sends a strong message to other employees that the company will not tolerate such behavior.

The timing of any discipline should be carefully considered before implementation. If an employee is going to be terminated for his or her actions, the company should consider what evidentiary assistance it needs from the employee prior to termination because the likelihood of the employee cooperating will obviously decrease after the fact. Thus, if it is important to lock in sworn statements, or have the employee provide relevant documents, the company should do so before firing the employee.

8. Consider Out-of-Court Resolution

If there is no truth to the accuser’s claims, the company should consider disclosing the findings of its investigation to demonstrate early to the accuser that its claims lack merit. Conversely, if there is evidence of misappropriation, the company should consider pursuing an early settlement with remedial actions that appropriately compensate the accuser and avoid further litigation. Such remedial actions may include limited discovery to demonstrate the company disgorged the alleged trade secrets, compensation for the accuser’s lost profits, disciplinary action against the offending employees, and some payment of attorneys’ fees. If there is any truth to the accuser’s claims, an out-of-court resolution that keeps the incident under wraps protects the company’s reputation and goodwill, and will be far less costly than litigation.

9. Scrub the Company’s Systems of the Alleged Trade Secrets After Resolution

One action the company should consider as part of a resolution is to ensure there are no traces of the

alleged trade secrets on the company's systems. Although the company will have hopefully already quarantined the problem as described above, the elimination of the alleged trade secrets should normally only occur after resolution of the matter as the company has a duty to preserve evidence of potential misappropriation during the pendency of the matter.

To ensure the company's systems are free of any evidence of the alleged trade secrets, the company should consider using an independent third-party computer forensics firm that can document the steps it took to remove the alleged trade secrets. If the company is considering this step before resolution, care must be taken to follow any document preservation requirements to ensure the company does not create a new, and self-inflicted, spoliation problem.

10. Implementing Lessons Learned

Even if there is no truth to the accusations, companies can and should learn from investigating and responding to claims of trade secret misappropriation. Some steps that may be necessary to implement after these experiences are: (1) improved onboarding of employees to ensure they know they are not to bring any of their former employer's trade secrets or confidential information, (2) additional training for managers so that they do not encourage such behavior, (3) improved computer security and document tracking systems to aid in future internal investigations, and (4) a frank assessment of any breakdowns in the investigation/response protocol to ensure future response efforts run more smoothly.

Although none of these considerations prevent a company from being accused of trade secret misappropriation, knowing what to do if and when such accusations land in the company's lap should increase the likelihood that it can avoid protracted and expensive litigation.

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