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INTELLECTUAL PROPERTY

Trade secrets troubles are well-suited for early mediation

By Lizbeth Hasse

Parties are often reluctant to mediate a commercial lawsuit until they've done substantial discovery and have a solid grasp on the parameters of an action. Frequently they'll put off initial mediation efforts until they've taken the time to consider which claims are likely to survive summary judgment or, at least, to evaluate the risks of a key deposition. Parties are also wary that early mediations give the opposing side a "free poke" at discovery.

Trade secrets cases, however, present concerns that generally motivate early ADR efforts. Plaintiffs fear competitive losses and perhaps irremediable harm in inaction or delay. By their very definition, the subject of trade secrets disputes would seem destined for ADR and the confidential forum it provides. Indeed, the parties are fighting over information or technology that "derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by another person who can obtain economic value from its disclosure or use." See Defend Trade Secrets Act (DTSA). The usual concern a company may have to avoid the adverse publicity of litigation is dwarfed by the immediate concern in a trade secrets dispute to avoid disclosure of valuable trade secrets to other competitors.

For all the rapid action that the trade secrets violation or "theft" case may seem to prompt, there are certain protections that often slow things down and contribute to early expense in this litigation. State and federal procedures providing mechanisms to keep a trade secret relatively well guarded in litigation may be imperfect and cumbersome. Counsel can spend days negotiating over modifications to model protective orders that distinguish between in-house and outside attorney access to confidential material. There are procedures for attorneys'-eyes-only review of documents, and opportunities for placing matters under seal when the court determines the protective order in itself is not adequate. In California (and some other states with laws grounded in the Uniform Trade Secrets Act), a trade secrets plaintiff must identify its claimed trade secrets with "reasonable particularity" for the court before commencing discovery. Section 2019.210 gives defendants "strategic and tactical advantages ... not only because plaintiffs must 'go first,' which allows defendants to tailor their defense to plaintiffs' disclosure, but also because there is often significant delay and cost" while parties and the court debate the adequacy of the disclosures. This gating requirement can also hamper the party seeking a TRO or preliminary injunction — particularly if discovery is needed to support the injunction. The new federal DTSA (which took effect in May and provides for original although not exclusive federal jurisdiction) has no such threshold disclosure requirement though California defendants may argue it is substantive state law still to be applied in federal court.

Although some discovery protections may be cumbersome, trade secrets litigation generally moves rapidly towards crafting them. Injunctive measures may be attempted at the outset to prevent use or dissemination of valuable information. The DTSA even allows ex parte seizure of trade secret material where its value might be destroyed by a defendant. Still, the ex parte seizure standard is so high that this measure is not likely to be used in the typical case. In any event the award of a provisional remedy to preserve status quo, while it takes intense legal effort and expense, does not necessarily foreshadow the outcome of the action. These cases are expensive, and costs are hefty from the start, thus encouraging ADR. There may be an NDA dictating the particular ADR process, especially if the dispute is between companies that attempted to collaborate or between a departing employee, founder or executive and the former employer. Or counsel may be able to get their clients to forego extensive discovery and consider the value of an early resolution effort. Still, anger and a deep level of distrust, with one side accusing the other of "theft" and "betrayal," may mean there is little hope of cooperation among parties to design an effective ADR process.

Under the circumstances, it is critical to have a neutral familiar with trade secrets law, risk management issues and the value of IP. Frequently, a major benefit of ADR is that parties can come up with options that would be lost in litigation. This is even more important in the IP or trade secrets case where parties may elect to fashion a settlement that involves a short term license, a cross-licensing agreement, or an agreement about periods or fields for limited use of information or technology, shared royalties and other solutions that could not be achieved in court.

I recently participated in ADR of a trade secrets dispute where the parties, even before the second amended complaint, agreed to an early neutral evaluation (ENE) to be followed by mediation. The structure necessitated that the neutral have IP/trade secrets expertise. With the neutral, the parties decided, pre-discovery, to allow each side to conduct one advance depo or interview (within the mediation privilege) to aid the process. At the close of the ENE, the parties exercised their option not to hear the mediator's evaluation and instead to proceed directly to mediation. During mediation, the idea of one party purchasing the business of the other was suggested, and the mediation became a neutral-guided negotiation. The sale/ purchase never took place, but in the course of the process, each side came to better understand the value and uniqueness of its business and where the purported trade secrets fit in. As a result of going through the evaluative process from a number of perspectives, they were able to settle on a resolution that allowed each to pursue its core business with limited constraints on the other. The communication and exploration that the process allowed, and the resolution achieved, simply would not have happened in a court.

Where an NDA or ADR provision calls for arbitration, counsel should be aware of emergency relief mechanisms available for when a party requires immediate relief for a certain aspect of a case (e.g., a TRO to control dissemination of confidential information) and cannot wait until an arbitrator is appointed.

Whether the new federal private right of action for trade secret misappropriation will significantly affect litigation conduct and trade secret enforcement is yet to be seen. One can reasonably predict that the DTSA will make for notable improvement in the quality of trade secret law given new developments in federal jurisprudence and the consistency possible. The reasons remain for early ADR with a neutral who knows the substantive law.

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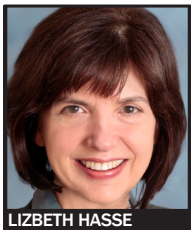
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