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Litigating Trade Secret Claims

The Employer's Emergency Response Kit

By Paul Cowie and Dorna Moini

In February 2014, a quantitative analyst at a New York hedge fund was arrested for using a decompiler program to view his employer's encrypted trading models and then sending them to his personal e-mail. He allegedly planned to take this information to a new employer, apparently for significant financial incentives. The incident is reminiscent of another widely publicized theft at Goldman Sachs. In 2009, a week before quitting his job to join another trading firm, Sergey Aleynikov, a programmer at Goldman Sachs, downloaded 32 megabytes of a proprietary algorithmic trading code from his employer. The code, which some called Goldman's "secret sauce," was used for a high-frequency trading (HFT) system, whereby traders use computer algorithms to rapidly trade securities, taking advantage of minute price changes to make a profit. Aleynikov had been offered $1.2 million per year to join a startup seeking to develop its own HFT system. He took that offer and was arrested by FBI agents at Newark Airport before making the jump.

Although high-profile, these are not isolated incidents. Former employees escape with valuable information every day, resulting in substantial, sometimes devastating losses to employers. Some employees claim the trade secrets belong to them; others attempt to explain away their conduct. Devices such as the new untraceable Blackphone, developed by Spanish startup Geeksphone, adds another layer of complication as it encrypts e-mails and text messaging, and has anti-tracking services that will make it much more difficult to discover employee misconduct and gain access to data during litigation.

When facing such inside threats, many employers are aware of the standard precautionary measures to take, such as utilizing invention assignment agreements and confidentiality agreements, requiring passwords and limiting access to key databases. Fewer are prepared, however, with a plan and an immediate response

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Reclassification Of Obesity and Changes to the Manual of Mental Disorders

What Employers Need To Know

Part One of a Two-Part Article

By Frank Cragle and Jaime Wisegarver

The Patient Protection and Affordable Care Act (ACA; www.healthcare.gov/law) is not the only health care challenge facing employers. Recent medical disease reclassifications are affecting a large portion of America's workforce, and the long-term impact is proving difficult to predict. These changes may result in an increased number of workers' compensation and Americans with Disabilities Act (ADA), 42 U.S.C. § 12101 *et seq*, (www.ada.gov/2010_regs.htm), discrimination claims, but hopefully, they will also result in a greater emphasis placed upon prevention and treatment.

While this article analyzes the recent reclassifications and provides recommendations to employers, ultimately, the impact of the reclassifications will likely be decided by the courts.

Reclassification of Obesity

In June 2013, the American Medical Association (AMA; www.ama-assn.org) officially

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team to address an actual breach. Following three key steps can help to make the difference. This article provides a glimpse into what happens on game day when valuable information is compromised and decisions need to be made fast.

Take Immediate Action to Preserve Evidence

The most crucial time for evidence collection and preservation is the very moment the employer suspects that information has been compromised. Authentic evidence is vital to successfully prove a trade secret case and maximize any recovery. Thus, the first step is to forensically secure the evidence, including the employee's computer, to prevent any unauthorized access. Indeed, many security breaches arise simply because of a failure by the employer to terminate a former employee's access.

As soon as litigation is anticipated, a litigation hold should also be issued to employees who may have relevant information. The duty to preserve evidence arises when a party reasonably anticipates litigation, and the failure to issue a litigation hold can lead to hefty sanctions, including terminating sanctions disposing of the case. *Electronic Funds Solutions, LLC v. Murphy*, 134 Cal. App. 4th 1161, 1182-1184 (2005) (court granted a terminating sanction striking cross-complaint for intentional destruction of evidence). Any document retention or destruction policy should also be suspended until it is ascertained who is involved and the relevant time period. Allowing e-mails to be deleted may defeat the case before it can even be presented. If there is other physical evidence, such as security footage, take immediate steps to preserve that as well, and do not assume that it is automatically retained. Equally important is ensuring the admissibility of such evidence. This can be achieved through following three important steps:

1. ***Forensic Examination***: A forensic examination is typically conducted by a third party with expertise in preserving electronic data and experience testifying in court. The forensic expert will usually duplicate the employee's computer and analyze the registry of actions to determine what occurred and when. This review can provide insight into the former employee's conduct, including what was accessed and when; what was downloaded from where to what type of device — USB, Smartphone, etc.; or whether information was uploaded to another site. The examination will usually also reveal whether wiping software has been used to cover their tracks or change file types.
2. ***Chain of Custody***: This is the process by which evidence can be authenticated to prove that it is what it purports to be, for example, that the former employee sent the incriminating e-mail. It is not uncommon for employees accused of trade secret theft to deny that evidence can be attributed to them or to allege tampering. To avoid such challenges, employers must have a secure chain of custody. Employers must, therefore be careful to avoid accessing documents in a manner that may compromise the metadata. With respect to physical evidence, limit the number of individuals who handle the evidence, and strictly restrict access.
3. ***Witness Interviews***: Gathering evidence while it is fresh and before a former employee has the opportunity to interfere with potential witnesses can prove invaluable. Such interviews should be conducted

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Whistleblower Rights Expand with Supreme Court Ruling

By Jared L. Kopel

Sometimes, the U.S. Supreme Court surprises us with a decision that cuts across ideological lines and propels the Court out of the intellectual grotto in which it appeared to be dwelling. Such is *Lawson v. FMR LLC*, No. 12-3 (March 4, 2014), which could have significant consequences for law and accounting firms, as well as all businesses working with public companies.

In *Lawson*, the Court held by a six-to-three split that the anti-retaliation protections afforded whistleblowers under the Sarbanes-Oxley Act of 2002 (SOX) enacted in the aftermath of the Enron and WorldCom financial scandals apply to employees of contractors and subcontractors of publicly traded companies. Although SOX was enacted to provide greater regulatory oversight of public companies, the *Lawson* decision means that private companies could be subjected to whistleblower lawsuits. Law firms with public company clients could also face SOX lawsuits that could concern matters unrelated to the public companies.

For a court whose conservative majority determinedly has tried to protect business interests from the burden of excessive litigation and has shown little sympathy for employee rights, the *Lawson* decision was unexpected. Even actor George Clooney made a surprise appearance in the majority opinion.

The Case

The SOX whistleblower protections already are a powerful weapon for employees of public companies who asserted that they were punished for reporting corporate malfeasance. In early March, a Los Angeles federal jury awarded $6 million to a former controller of Playboy Enterprises, who alleged that she was unlawfully fired for refusing to set aside $1 million in management bonuses that were not properly approved by the board of directors. Now, under *Lawson*, such lawsuits can be brought by employees of private companies that have a contractual relationship with a public company.

Section 806 of SOX created a new provision, 18 U.S.C Section 1514A(a), which states in relevant part that "[n]o public company ... or any officer, employee, contractor or subcontractor, or agent of such company, may discharge, demote, suspend, threaten, harass, or in any other matter discriminate against an employee" because the employee provided information or assisted in the investigation regarding conduct that the employee reasonably believed constituted violations of the federal statutes prohibiting wire fraud, mail fraud, bank fraud, securities or commodities fraud, or any rule or regulation of the Securities and Exchange Commission (SEC). Sections 1514A(b) and (c) allow a person who is the victim of such retaliation to file an action with the Department of Labor (DOL) seeking reinstatement with back pay and compensation for any special damages that resulted.

Background

The plaintiffs, Lawson and Zang, filed Section 1514A actions against their former employers, which were privately held companies that provided advisory and management services to the Fidelity family of mutual funds. As is customary, the funds, although publicly traded, had no employees. Instead, the funds contracted with investment advisers, including FMR LLC, to handle day-to-day operations, including management decisions, preparing shareholder reports and making SEC filings. The plaintiffs asserted that they were punished by their employers after they complained about alleged accounting errors that overstated expenses in connection with operating the funds (Lawson) and misstatements in a draft registration statement that certain funds would file with the SEC (Zang).

The U.S. Court of Appeals for the First Circuit held that the lawsuits should be dismissed on the ground that Section 1414A protected only "an employee" of a public company, not employees of private contractors or subcontractors. By contrast, several months later, the Department of Labor's Administrative Review Board held in an unrelated case that Section 1514A provides whistleblower protection to employees of contractors and subcontractors that provide services to public companies. The Supreme Court agreed to resolve the split in opinion.

The Court's Ruling

As a threshold matter, Justice Ginsburg's majority opinion held that the "ordinary meaning" of an "employee" in Section 1514A (a) referred to the contractor's employee. The Court rejected FMR's argument that Congress included contractors in Section 1514A simply to prevent companies from avoiding liability by employing contractors, like the "ax-wielding specialist" portrayed by George Clooney in the movie "Up in the Air," to implement the retaliatory discharge of the employee. The majority held that Section 1514A would not insulate from liability a company using the ax-wielder to fire employees at the company's direction, and that an ax-wielding George Clooney was not the "real-world problem" that Congress had in mind when it included contractors in the statute.

Rather, there would be a "huge hole" in Section 1514A's reach without including a contractor's employees. Mutual fund advisers and managers, who actually control and operate the publicly traded funds and are responsible for drafting SEC filings, would go scot-free, which could not be what Congress intended. And rather than inadvertently capturing law and accounting firms, Congress, in the wake of the Enron debacle, presumably sought to provide whistleblowing protections to the professionals who could halt a fraud upon investors.

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The Dissent

Justice Sotomayor's dissent, joined by Justices Kennedy and Alito, warned that the majority's opinion would conceivably permit Section 1514A lawsuits by the millions of private company employees and independent contractors. Further, as construed by the majority, Section 1514A would extend to employment relationships between individual employees of a public company and their nannies, housekeepers and caretakers (and presumably to their gardeners, plumbers, electricians and anyone else with whom the employee has a contractual relationship). A Section 1514A suit could be brought by a nanny who was fired after complaining that the employer's teen-aged son had committed Internet fraud. Similarly, under the majority's analysis, a babysitter could bring a Section 1514A action against an employer working as a checkout clerk for PetSmart, a public company, but not Petco, a private company. Congress could not have intended such absurd results.

In response, the majority opinion dismissed possible suits by nannies or babysitters as far-fetched, and stated that there could be "limiting principles" that would preclude any over-breadth problems. A "contractor" does not necessarily cover every "fleeting business relationship," but could apply only to a party whose contractual performance occurs over a significant period. Justice Ginsburg noted the Solicitor General suggested Section 1514A might protect contractor employees only to the extent that they fulfilled the contractor's role for the public company. But the Court held there was no need to draw such lines since the plaintiffs' suits concerned a "mainstream" application of Section 1514A given allegations that they had been punished for blowing the whistle on efforts to mislead the funds' shareholders and the SEC.

But *au contraire*, wrote Justice Scalia in a concurring opinion joined by Justice Thomas. Although such a limiting principle may be appealing from a policy standpoint, there was no statutory basis for concluding that Section 1514A protects a contractor's employees only to the extent that the employee performed the contractor's role for the public company. "[S]o long as an employee works for one of the actors enumerated in Section 1514A(a) and reports a covered form of fraud ..., the employee is protected from retaliation." Thus, a majority of Justices — three in the dissent and two in the concurring opinion — rejected the Solicitor General's proposed limiting principle as inconsistent with Justice Ginsburg's statutory analysis. In other words, the scope of Section 1514A, like George Clooney, is left "Up in the Air." Justice Scalia also heaped scorn on trying to ascertain a Congressional intent apart from the text as useless intellectual hydroplaning because on most issues, "the majority of Senators and Representatives had no view on how the issues should be resolved — indeed, were unaware of the issues entirely."

The Dodd-Frank Act

While a close textual analysis supported the plaintiffs'claims in *Lawson*, it may benefit defendants in another whistleblower-related issue percolating up through the courts: whether the whistleblower protection provisions of the Dodd-Frank Act, which provide more expansive relief to claimants than SOX, apply only to those whistleblowers who reported possible violations to the SEC rather than those who reported only internally. In *Asadi v. G.E. Energy (USA), L.L.C.*, 720 F.3d 620 (5th Cir. 2013), the Fifth Circuit held, in contrast to lower court decisions, that Dodd-Frank's definition of "whistleblower" limited its whistleblower protections only to employees who reported to the SEC.

By contrast, California last October expanded its employee whistleblower protections to include employees who reported possible violations internally to a supervisor or another employee with authority to investigate the complaint. These protections apply to employees "regardless of whether disclosing the information is part of the employee's duties," which could apply to in-house counsel or compliance officers. The expanded protection also bars retaliation because the employer believes that an employee has or will report possible violations, even if the employee has not actually done so.

Your Private Company Clients

In the wake of *Lawson*, attorneys for private companies should advise their clients that they could be subjected to SOX whistleblower lawsuits. The first analysis is whether the private company has a business relationship with a public company that might make it a "contractor" or "subcontractor" for SOX purposes. Although *Lawson* fails to provide clear guidelines, an analysis should include whether there is a written contract with the public company; whether the business relationship has covered a significant period of time; and whether there has been recurring business. There would have to be a further analysis to determine whether the client is a subcontractor of a contractor of a public company. If so, then attorneys should advise the private company clients that they could be sued under SOX and — depending on how *Lawson* is applied by the lower courts — the suit could concern purely internal matters that are unrelated to the public company.

What *Lawson* Means for Law Firms

First, it is now certain that law (and accounting) firms may be sued under Section 1514A by employees claiming they were retaliated against after raising concerns about a public company client. But firms may also be subject to a Section 1514A action by an employee claiming retaliation for expressing concern about purely internal matters, such as padding a bill (mail fraud) or a false loan application (bank fraud). Indeed, the employee of a firm with public company client A might be able to bring the Section 1514A action after being punished for raising concerns about conduct in private company client B. Only

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CASE NOTES

Paramedic Fired for Telling Employer That Coworker Was Drunk

A paramedic working in Philadelphia recently filed a lawsuit against her former employer, citing a violation of Pennsylvania's whistleblower act. Valerie Sakr contends that she informed her employer she believed her fellow employee, the EMT driving the ambulance in which she rode, was intoxicated. Her employer told her and the allegedly intoxicated employee to go out on the road anyway, and shortly afterwards, the EMT hit another vehicle.

Sakr believed the employee was intoxicated due to the fact that he smelled like alcohol. When the employer drug-tested the employee, his blood alcohol content was 0.07, below Pennsylvania's legal limit. Ms. Sakr, contends, however, that the employer waited four hours after her original complaint to drug-test the employee. Due to the way alcohol is metabolized in the body, this raises a strong likelihood that the employee indeed may have been drunk when he and Ms. Sakr left to begin their shift, and when he hit the other vehicle.

A few days after the accident, Ms. Sakr filed a complaint with the county health department. It is interesting to note that while Pennsylvania does have a statute regarding drivers of emergency vehicles, 75 P.S.A. § 3105, the statute does not state anything overtly about the penalties for drivers who are under the influence. The statute does not relieve drivers of emergency vehicles from the duty to drive with due regard to the safety of all persons, which obviously would include Pennsylvania's state law forbidding operation of a motor vehicle while intoxicated.

According to Ms. Sakr's complaint, it was after she went to the county health department that her employer began to retaliate against her, including pressuring her to resign. When she refused to do so, her employer changed her schedule, forced her to use the most outdated vehicle and equipment, and denied her vacation request while granting similar requests to other employees. The employer later fired her.

Ms. Sakr brought suit under the Pennsylvania whistleblowing statute, which protects employees who report waste or wrongdoing to their employer or a government agency. Waste involves substantial abuse, misuse, destruction or loss of funds or resources belonging to or derived from the Commonwealth or political subdivision sources. Wrongdoing is defined as a violation which is not of a merely technical or minimal nature of a Federal or State statute or regulation. Wrongdoing would presumably include both the EMT driving while intoxicated, and the employer forcing Ms. Sakr to go out on the road with the intoxicated employee, especially considering the statute requires the report to be made in good faith. The good-faith requirement would most likely protect Ms. Sakr even if the conduct in question was not found to be wrongdoing. The Pennsylvania whistleblower statute forbids employers discharging, threatening, or otherwise discriminating or retaliating against an employee acting under the protection of the whistleblower act.

The lesson to be learned from this complaint is a rather obvious one: Don't force your employees to ride in cars with other employees who are intoxicated, and don't fire your employees when they complain about it. — **Michael Kraemer**, Kraemer, Manes & Associates, Pittsburgh, PA.

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future judicial pronouncements will determine the boundaries of Section 1514A.

Accordingly, law firms need to follow the identical advice that they give to their clients:

- Have a written anti-retaliation policy. Law firms, like their clients, need to have a written anti-retaliation policy that is provided to new employees and is circulated to all employees annually. Employees need assurance that they will not be victimized for raising ethical and legal concerns, and that the firm will take their complaints seriously. Management should discuss with an employee what inquiry was undertaken in response to any complaint. A hotline should be established so that employees may raise such concerns in confidence.
- No retaliation. Supervisors should be told that there must be no adverse action taken against any employee who makes complaints that are covered by SOX.

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Obesity

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reclassified obesity as a disease state, sending the message that obesity is a medical condition that warrants insurance coverage for all aspects of prevention and treatment. This message was received loud and clear by employers and insurers, who immediately began questioning how, exactly, this reclassification would impact their bottom lines. While insurers may face increased costs in the short term and employers can expect to see new types of claims, recognizing obesity as a treatable disease will ultimately help change the way insurers, medical providers, and the community view a serious condition that, according to the Centers for Disease Control and Prevention (CDC; www.cdc.gov), affects more than one in three Americans.

Historically, obesity has been classified as a co-morbidity, a condition

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Obesity

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that occurs at the same time but usually independent of another injury or illness. Without an accompanying medical condition (diabetes, for example), insurance policies generally excluded treatment for obesity itself. Because obesity was a mere co-morbidity, not a disease, it was not a reimbursable Current Procedural Terminology (CPT) code, as defined by the AMA. Therefore, if a doctor wanted to talk to a patient about losing weight, the doctor would not necessarily be reimbursed by the insurance company. In the past, doctors might include an obesity co-morbidity code on the medical bill if the patient's obesity needed to be addressed in order to treat another injury or condition, or in order for the patient to recover. However, at least in the context of workers' compensation claims, obesity was not frequently deemed a condition that needed to be addressed in order to treat most work injuries or illnesses.

This shift in the AMA's classification of obesity is more than just semantics. The AMA, the nation's largest physician group, seems to be shining the spotlight on the obesity epidemic in order to encourage all health care players to focus on treatment and preventative care. Not only will the reclassification help to focus the attention of physicians on the problem of obesity, but hopefully it will spur insurers to cover prescription drugs, surgery and counseling geared toward treating obesity. If so, doctors will be able to spend time with their obese patients discussing the condition, as well as refer these patients to weight loss programs and nutritionists — and that care will be covered by insurance. These programs designed to treat obesity may also help in the fight against Type II diabetes and heart disease, which are closely linked to obesity.

Significantly, research suggests that the reclassification will likely result in an influx of work injury claims involving obesity, as well as an increase in the number of cases in which obesity is claimed as a compensable consequence of injury.

As a co-morbidity, obesity in workers' compensation claims has been largely unreported. In other words, medical providers tend only to document injuries and conditions they intend to treat. In 2011, the California Workers' Compensation Institute (CWCI; www.cwci.org) published a study of 1.2 million claims from accident years 2005 to 2010, in which it found that although 28% of workers reported that they were obese, only 0.9% of the job injury claims from those workers included an obesity co-morbidity diagnostic code. The CWCI also found that paid losses on claims with an obesity co-morbidity averaged $116,437 — 81% more than those claims without an obesity co-morbidity. Moreover, claims with an obesity co-morbidity averaged 35 weeks of lost time, 80% more than the 19-week average for claims without the obesity co-morbidity. *See* "Obesity as a Medical Disease: Potential Implications for Workers' Compensation," CWCI, http://bit.ly/1eQFQhc.

These numbers reveal that claims with an obesity co-morbidity have significantly higher rates of lost time from work, permanent disability, attorney involvement, additional co-morbidities (*i.e.*, arthritis and hypertension), and more prescriptions — all of which are associated with higher claims costs.

The AMA's reclassification may also result in protection for obese employees under the ADA, which states that employers cannot discriminate against employees on account of a disability. The ADA defines "disability" as "a physical or mental impairment that substantially limits one or more major life activities."

Historically, an obese individual needed to have a resulting condition, such as diabetes or high blood pressure, to qualify as having a disability under the ADA; obesity alone was not protected from discrimination by the ADA. Now, obese employees are more likely to be recognized as disabled and as having rights under the ADA because the ADA's definition of "disability" encompasses virtually any diagnosed medical condition. Thus, obesity may be seen as a condition that employers need to accommodate. Also, the ADA may end up protecting obese employees from termination and other adverse actions related to the disease.

Employers would be wise to seriously consider how they can accommodate obese employees. Now that obesity is classified as a disease under the ADA, it will be difficult for employers to argue that obesity does not constitute an impairment.

Moreover, even if an employee's obesity seemingly does not affect a major life activity or body function, he might still be protected by the law if the employer regards the employee as impaired by his weight. Making changes to offices and workspaces in order to create a more comfortable working environment for all employees is a small price to pay when compared with the cost of defending ADA claims.

The reclassification may result in more workers' compensation claims and ADA claims involving obesity, which could lead to increased costs for employers and insurers. However, over the long term, the goal is that everyone will save by having fewer obese people seeking treatment for associated conditions such as diabetes and cardiovascular disease. Hopefully, the change in the definition of obesity will lead to greater reimbursement by insurance companies for services provided by doctors treating people with weight issues.

Although the reclassification is not a legal decision that compels insurers to cover treatment or medications for obesity, the AMA does carry significant weight in the medical community as an authoritative body, and often influences lawmakers. With any luck, the reclassification will serve as an impetus for insurers to broaden their coverage for obesity treatments, counseling, medication, and surgery, which will, in turn, decrease the nation's health costs in treating conditions such as diabetes, heart disease, and high blood pressure.

Next month, we will discuss reclassifications of psychiatric disorders and their possible effects on employment law.

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by an attorney to enable legally admissible declarations to be drafted as to the most relevant information, rather than broadly as to everything an employee knows. Declarations collected at the beginning of the case can help to prevent a witness from later changing his or her story.

Choose the Appropriate Preliminary Relief

After collecting and preserving the evidence, the next step is to decide how to proceed. The form of preliminary relief will depend on the type of trade secret compromised, its sensitivity, and the relationship with the former employee. Problems with evidence and witnesses will likely also impact the decision, as well as a desire to send a message to others about such conduct. While some have applauded the New York hedge fund for treating the matter as theft, commentators have questioned how such action would be perceived in Silicon Valley, and whether it risks alienating the workforce or dampening an organization's ability to hire.

The Facilitative Approach: Cease and Desist Letter

The benefits to attempting to resolve a suspected breach informally include preventing an adversarial relationship and reducing cost. Sometimes, employees simply "forget" about their obligation and can easily be persuaded to comply by letting them know they are on the radar. The American Intellectual Property Law Association (AIPLA) reported in 2013 that the average cost of litigating an intellectual property dispute where less than $1 million is in dispute exceeds $320,000 through the end of discovery and $580,000 through trial. Alternatively, the employee's new employer may recognize the risks more clearly and instruct the employee to cooperate. Thus, an appropriately worded cease and desist letter may be all that is needed.

Litigation: Immediate Injunctive Relief and Expedited Discovery

In stark contrast to the cease and desist letter, where valuable or particularly sensitive information is at risk, a temporary restraining order (TRO) may be necessary to prevent any immediate harm. Court-ordered relief is a much more burdensome and costly endeavor, but is also much more effective. The purpose of a TRO is to ask the court to issue a preliminary injunction pending litigation to seek a permanent injunction against the unlawful activity. To maximize the effectiveness of this procedure, the employer should also seek expedited discovery to depose the former employee and obtain any documentary evidence as soon as possible. In appropriate cases, the employer may also ask for a writ of attachment, which freezes the former employee's assets, preventing the funds and property from dissipating before judgment.

The purpose of a TRO is to ask the court to issue a preliminary injunction pending litigation to seek a permanent injunction against the unlawful activity.

The standard for a TRO is tough, but a win sends a strong message to the defendant employee that the employer will prevail on the merits, enhancing settlement opportunities and providing ultimate insight into what the judge finds important. To obtain injunctive relief, the employer must show: 1) a substantial likelihood of success on the merits; 2) that it would suffer irreparable injury if the injunction were not granted; 3) that the balance of the equities tips in its favor; and 4) that the public interest would be furthered by the injunction. *Winter v. Natural Resources Defense Council*, 555 U.S. 7 (2008). If an employee then violates a TRO, the ultimate recourse is an action for contempt. *Verigy US, Inc. v. Mayder*, 2008 U.S. Dist. LEXIS 28315, 35 (N.D. Cal. 2008) (Defendants ordered to show cause why they should not be held in contempt for violating court's temporary restraining order).

The decision to pursue a TRO also carries risks, however, because if it is denied it may embolden the former employee to fully utilize any trade secrets or confidential information in ways beyond those the employer was seeking to address. Additionally, the employee's new company may decide to terminate the employee to avoid the risk of litigation. In such circumstances, the former employee may counterclaim against the employer for tortious interference. *O'Neill v. GlobeSpan, Inc.*, 2001 U.S. Dist. LEXIS 23113 at 2-3 (C.D. Cal. 2001) (employee alleged that former employer interfered with new employment relationship by claiming that he would inevitably disclose proprietary information).

Criminal Investigations

Another option to counter trade secret theft is to involve the government, but the decision should be a calculated one. Initiating a criminal investigation can be effective in creating the fear of jail time and drawing upon federal resources. The District Attorney has more weapons to use for gathering evidence than those available to civil lawyers. For example, the government can issue a search warrant or use a false identity to gather information. However, a criminal investigation will usually mean handing over control of the investigation, which will likely stifle the company's ability to pursue its own recourse. Involving the government should be a thoughtful and thorough decision, as there could be unintended consequences, such as negative publicity, damage to customer relationships, or adverse impact on stock prices.

Litigation

Causes of Action

Trade secret cases implicate a host of claims and potential derivative causes of action, including breach

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Trade Secrets

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of contract, misappropriation of trade secrets, breach of fiduciary duty, and Lanham Act claims for unfair competition. Additionally, while courts have been less than uniform, an evolving area of law is whether trade secret owners can obtain treble damages and attorneys' fees under a Racketeer Influenced and Corrupt Organizations Act (RICO) claim. Originally enacted to prevent organized criminals from infiltrating legitimate businesses, RICO has been used to litigate trade secret claims where there is a pattern of "racketeering activity," which can include anything from mail fraud, wire fraud, to transporting stolen property over $5,000 in value.

Similarly, the Computer Fraud and Abuse Act (CFAA), which prohibits the unauthorized access to information on a computer, also provides a private right of action. In the first trial of its kind in California, a former employee was recently sentenced to one year in jail after being found guilty of three counts of computer fraud in violation of the CFAA, two counts of unauthorized downloading, copying, and duplicating of trade secrets without authorization, in violation of the Economic Espionage Act (EEA), and one count of conspiring to violate the EEA. *United States v. Nosal*, 2014 U.S. Dist. LEXIS 4021 at 1-2 (N.D. Cal. Jan. 13, 2014). Because most modern trade secret cases involve a computer database, the CFAA provides another weapon for employers seeking to protect their trade secrets.

Potential Defendants

Another important consideration is whether third parties should be joined in the lawsuit. In many cases, an employee leaves one company to join a competitor. If there is evidence that the new employer engaged in wrongdoing, this raises potential claims for tortious interference with contract and civil conspiracy. Naming agents such as former employees, vendors or business parties as co-conspirators can help ensure adequate injunctive relief and monetary recovery.

Liability may also attach to parties who know of the misappropriation and approve or ignore it for their own benefit, for example, individuals who have invested in the future employer. *Ajaxo, Inc. v E*Trade Group, Inc.*, 135 Cal App. 4th 21, 66 (2005). In one California case, a company brought suit against its former employees, the corporation in which the stolen knowledge was allegedly used, and its directors, officers and principal shareholders. The court found that if the investors knew or should have known of the misappropriation, they too could be held liable. Part of the court's rationale was that those investors may have invested at a bargain price, knowing that the sole business assets consisted of stolen information and processes. *PMC, Inc. v Kadisha*, 78 Cal App. 4th 1368, 1385 (2000).

Be Aware of Counterclaims

Improperly pursuing a former employee or naming a competitor as a defendant without sufficient proof of wrongdoing is a risky business and it should be expected that a counterclaim will follow. These counterclaims can range from the pursuit of attorneys' fees, to legitimate contentions that the employer's actions are anticompetitive, to an entirely concocted story asserting that the former employee owns the trade secrets. For example, in one trade secret theft case, an employee filed a counterclaim asserting that the trade secrets had been given to her as consideration for settling sexual harassment allegations some two years earlier.

Conclusion

Most employers are aware of the need to take precautionary measures to protect and limit access to trade secrets and institute appropriate contractual safeguards. However, many employers believe that a breach will never happen to them. Recent cases show that breaches are more common than employers believe, and usually come from an employee inside the company or business partner. As technology continues to develop, employees are being presented with the means to access and abscond with the company's most valuable information. When the unexpected breach occurs, employers need to be prepared to act quickly to protect the evidence, limit damage, and ensure the fullest possible recovery.

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Whistleblowers

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Such actions include measures that could be considered as a constructive discharge, including reducing the employee's responsibilities; isolating the employee physically; and criticizing the employee in front of co-workers.

- Documentation. The reasons for any dismissal or disciplinary action against an employee should be documented in order to show that it was not retaliation for a complaint.
- And a word to the wise — be nice to your nannies and babysitters.

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