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Economy Leads Companies to Sue Ex-Workers

By Laura Ernde

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When Santa Barbara inventor William Parrish was sued by his former employer for trying to start a competing business, he not only won dismissal of the case but also collected a cool $1.6 million for his attorney fees and costs.

The ruling, upheld this summer by the 2nd District Court of Appeal, sent a strong signal to companies who are losing key employees in tough economic times: Unless someone has threatened to use your trade secrets, don't run to the courthouse claiming trade secret misappropriation - California's long-running policy of protecting employee rights to freely switch jobs could easily trip you up.

"You can't rely on speculation that a departing employee may use a trade secret," said Buchalter Nemer attorney Richard Darwin, who specializes in trade secrets litigation. "Even if you know the person had access... and they're leaving and going to a direct competitor. That doesn't fly."

Despite that and other pitfalls, interest in trade secrets litigation has been on the upswing, said Darwin and others who specialize in prosecuting and defending against alleged corporate raiding.

One reason is the California Supreme Court's decision last year in Edwards v. Arthur Andersen, 2008 DJDAR 12286. The ruling sounded the death knell for non-competition agreements in California, a weapon used in other states to prevent departing employees from taking valuable business with them when they leave.

As a result, companies are turning to claims of misappropriation of trade secrets in order to protect valuable information.

"The rule [that] you can't use employers' trade secrets when you go elsewhere is still in effect," said Donna M. Mezias, a partner in the San Francisco office of Jones Day. "This is the only avenue left"

The economy also has company executives asking more questions about protecting trade secrets. When money is scarce, businesses are frantic to hold onto any advantage they have, especially when it comes to a valuable employee.

"With that desperation comes employees taking more risks, promising more to prospective employers and trying to deliver," said Dan Chammas, who does employment and trade secret work for Venable in Los Angeles.

The intense interest in trade secrets litigation hasn't necessarily translated into more filings, litigators said.

While there's no way to track the actual number of trade secrets claims being filed, Robert Milligan and Carolyn Sieve at Seyfarth Shaw in Los Angeles conducted a keyword search of filings from Courthouse News Service and found that trade secrets were mentioned less frequently this year compared to 2007 and 2008. Nevertheless, they said they have been doing a lot of advice and consulting work in the area of trade

secrets.

Another tactic they've seen is businesses trying to enforce non-compete agreements against California employees through courts in other states. That sometimes sets off a race to the courthouse because employees will then file in California to get the agreement invalidated.

Things could get more litigious as the economy improves and more people begin to switch jobs, practitioners said.

"I think you will see an uptick in the number as more jobs become available," said Gary E. Weiss of Palo Alto, a managing partner at Orrick, Herrington & Sutcliffe who chairs the firm's intellectual property group.

Orrick has its own computer forensics team to swiftly investigate whether any electronic information has been breached, Weiss said.

"All these cases unfold very quickly," Weiss said. "You don't have a few weeks to think about it."

No matter how poor the economy is, highly talented and skilled employees are always able to switch jobs. That was the certainly the case with Parrish, who was upfront about his intentions to compete against his former employer, FLIR Systems Inc., which makes a device called a microbolometer, used in infrared cameras and night-vision goggles.

At first FLIR wished Parrish well in his new endeavor, but all bets were off when Parrish started talking to Raytheon Co. about mass-producing the devices. It was then that FLIR filed suit for misappropriation of trade secrets. Santa Barbara County Superior Court Judge James W. Brown said the suit had no merit, and awarded Parrish his attorney fees.

FLIR argued that it was reasonable to assume Parrish might use proprietary information, but Brown saw it differently. The assumption that Parrish would have had to use FLIR's trade secrets in his new job, a doctrine known as "inevitable disclosure," is not recognized in California. FLIR v. *Parrish,* 2009 DJDAR 8598.

FLIR's attorney, Dan Schecter of Latham & Watkins in Los Angeles, declined to comment, citing his ongoing representation of the company in other matters.

But Parrish's attorney, Charles Tait Graves at Wilson Sonsini Goodrich & Rosati in San Francisco, said the doctrine has fallen out of favor in other states as judges see trumped-up trade secret allegations being used to squelch competition.

"The lesson of the FLIR decision is that employers can't go after departing employees when there's no evidence of wrongdoing," Graves said. "You can't invent a lawsuit to tie people down."

Graves stressed that public policy favoring employee mobility is not a new phenomenon. Although the Arthur Andersen ruling came out last year, the state's first ban on non-compete agreements was adopted in 1872. he said.

FLIR wasn't the first company whose trade secrets claim came back to bite it. Tesla Motors Inc.. had to pay $1.1 million in attorney fees and costs to rival Fisker Automotive Inc. over a bogus trade secret claim.

Tesla sued after Fisker, contracted to design an all-electric sedan for Tesla, teamed up with a venture capitalist fund to build a plug-in hybrid sedan. The two cars shared some of the same design features.

The case went to arbitration, and retired Orange County Superior Court Judge William F. McDonald found Tesla's claims "baseless and neither brought nor pursued in good faith."

California courts weren't always so hostile to the inevitable disclosure doctrine. In a case that dates back to

1995, Weiss succeeded in getting an injunction against dozens of employees who left Advanced Micro Devices Inc. to work for Hyundai's new "flash memory" division.

In what was considered at the time to be the first inevitable disclosure doctrine case in California, state courts blocked employees from working on projects that involved AMD's flash memory technology.

Courts need to find ways to balance businesses' rights to protect legitimate trade secrets against the right of employees to switch jobs. Weiss said.

"These are really practical problems and they're really hard to solve," he said.

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