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Mediating Trade Secret Cases: Insights for In-House Counsel

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Trade secret disputes involving high-level executives or R&D employees are complex and demand immediate attention due to the high stakes and litigation costs involved. Intricate technical details, emotional tensions and bruised egos combine with significant risks to key corporate strategies and business relationships, all in the highly charged context of requests for immediate injunctive relief.

Mediation offers a valuable opportunity to resolve these disputes efficiently and confidentially. Effective mediation requires a nuanced approach to manage the maelstrom and quiet the storm toward resolution.

The Trend Regarding Noncompetition Agreements

Regardless of how the courts ultimately rule on employment noncompetition covenants, the trend is against their use and enforcement. More and more states are prohibiting such covenants, and executives, engineers and developers are becoming more resistant to signing them.

This trend complicates post-employment litigation and dispute resolution. When properly negotiated and applied, such covenants, like an employment prenup, provide guardrails to help former employees and their new employers understand what those employees can do and when.

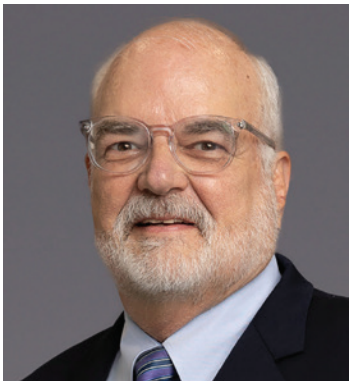
This trend is not moving toward unlimited employee mobility. Instead, in the context of trade secret law and confidentiality covenants post-employment activity, conditions are often negotiated after employment has ended.

Consider When to Mediate a Trade Secret Case

When to mediate such a case is a key consideration. If mediation is delayed, litigation costs can render a case unresolvable. Customers or vendors may be pulled into expedited discovery—and a subpoenaed customer is hardly ever a happy customer.

Early mediation provides an opportunity to avoid exorbitant litigation costs and collateral damage. On the other hand, mediation before discovery involves the risk that negotiations may stall due to surmise, assumption and suspicion.

While finding the "Goldilocks" moment varies for each case, parties can facilitate early mediation by exchanging position statements, conducting limited but essential discovery and presenting initial offers and counteroffers before mediation.



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Maintain Confidentiality

In any trade secret case, confidentiality is necessary to protect sensitive information. The mediation process must reflect this priority.

All parties (and the mediator) should sign a robust confidentiality agreement covering the substance of the trade secret(s) and the facts presented in the mediation itself. Consider how and when to use separate caucus rooms, including to prevent inadvertent disclosures, particularly when information is produced for attorneys' eyes only. When discussing technical details, use code names or generalized descriptions whenever possible.

Be cautious about what is put in writing during mediation. Encourage parties to limit written materials and to collect or destroy sensitive documents at the conclusion of each session. Consider implementing a secure digital platform for sharing documents, with strict access controls and the ability to revoke access once the mediation concludes.

Address the Scope of Alleged Misappropriation

A common roadblock in trade secret mediations is disagreement over the scope of the alleged misappropriation. Former employers may cast a wide net, whereas individuals and their new employers may take a more limited approach, arguing that the claims are overbroad or vague.

Tackle this issue head-on in the early stages of mediation. Former employers should provide a clear, specific list of the trade secrets at issue. This focuses the discussion and may even reveal areas where the parties agree. The new employer should be aware of the "hypocrisy defense" and whether its positions contradict its own policies.

Particularly in technical or R&D cases, consider using a mediator with technical knowledge who can help define and categorize the alleged trade secrets. This strategy can provide a common language and framework for discussions and may avoid a "battle of the experts." Nevertheless, each side may insist on using its own experts. When this occurs, experts should be managed to promote resolution rather than division. For example, consider having the experts meet separately to identify areas of agreement and narrow the technical issues in dispute, most likely with the assistance of the mediator. The parties should agree that such discussions will not be used later if litigation continues.

Additionally, explore using a tiered approach, where certain categories of information are addressed separately, allowing for partial agreements, even if full resolution isn't immediately possible.

Experts from both sides can be particularly valuable in quantifying damages or assessing the commercial value of trade secrets. While liability facts are important, damage models may be the key to resolution.

Consider Creative Remedies Beyond Monetary Damages

While the parties may focus on monetary damages, a trade secret mediation offers an opportunity for business-oriented solutions. Encourage parties to think creatively about remedies that address underlying business interests. An agreement reached by the parties—often by putting the business representatives together in a separate caucus—may well be superior to the resolution mandated by an overworked judge. Moreover, the parties in mediation can arrive at business solutions that lie beyond a court's powers.

Examples include a licensing agreement allowing limited use of the information in exchange for royalties; a joint venture or other collaborative effort that could benefit both parties; and, with respect to a departing employee, negotiated, enforceable limits on employee activity for the new employer, such as affirming non-disclosure obligations.

Another creative option is a "clean room" approach, where the defendant agrees to develop certain technologies or products under monitored conditions to help prevent the misuse of the plaintiff's trade secrets.

The key is to focus on forward-looking solutions that protect the plaintiff's interests while allowing the defendant (and the individual employee) to continue their business operations in a modified form.

Manage Emotions and Relationships

Trade secret cases often involve deep-seated emotions—such as betrayal, anger and resentment—particularly when the dispute involves a former employee. Managing these emotions is crucial to achieving a resolution. Working confidentially with the mediator well in advance of the mediation session to develop a process that acknowledges and respects these emotions is a smart approach. Pre-session conferences with the mediator are essential.

Start by acknowledging the emotional aspects of the dispute. The parties should be allowed to express their feelings in a controlled environment but then redirect their efforts toward problem-solving. Using separate caucus sessions, including in presession conferences, allows venting without inflaming the other side. Mediators listening carefully through the bluster may also detect the underlying interests essential to resolution.

Ultimately, focus on future business interests and what is the best decision going forward, rather than nursing past grievances. Keep your team apprised of the long-term costs of continued conflict in terms of both litigation expenses and (perhaps more importantly) damaged relationships and lost business opportunities.

Mediating a trade secret case requires a delicate balance of legal acumen, technical understanding and interpersonal skills. The goal of mediation here goes beyond settling a lawsuit to finding solutions that protect intellectual property while allowing businesses and employees to move forward productively. By maintaining strict confidentiality, addressing scope issues early, effectively utilizing technical experts, exploring creative remedies and managing the emotional aspects of the dispute, in-house counsel, with the help of a skillful mediator, can significantly increase the chances of reaching a resolution.

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