



proceed with caution on trade secrets claims

MSK Client Alert

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If a former employee is joining a competing firm or setting up his or her own shop, you might be quite concerned that your company's proprietary information will be used against it. You might want to stop such information misuse by filing a prompt lawsuit alleging violation of California's Uniform Trade Secrets Act (California Civil Code Section 3426, *et seq.*). However, the recent decision in *FLIR Systems, Inc. v. Parrish*, 174 Cal. App. 4th 1270 (Cal. App. 2 Dist. 2009), instructs that a company in this situation should gather as much evidence as possible before filing the lawsuit because, if the company loses, it might be saddled with both sides' attorneys' fees and costs.

That's what happened recently to FLIR Systems, which manufactures infrared cameras, night vision instruments, and thermal-imaging systems. FLIR acquired another company, Indigo Systems, obtaining all of Indigo's technology, patents, and intellectual property. Indigo manufactured "microbolometers," which are components in FLIR's products. After FLIR paid \$185 million for Indigo, two of Indigo's principals went to work for FLIR. But, during the next year, they decided to leave FLIR and join an unrelated company (Raytheon) to mass-produce microbolometers.

Understandably, FLIR was quite concerned. The previous year FLIR had paid \$185 million so it could produce its own microbolometers. Now the recipients of that money, who knew all about microbolometers, were negotiating with Raytheon to compete with FLIR.

FLIR gave notice of its contentions to Raytheon, which promptly backed out of establishing a competing business with the two former Indigo principals. Accordingly, no competing business was ever started. FLIR then filed a lawsuit under the California Uniform Trade Secrets Act, seeking to enjoin the two former Indigo principals from misappropriating FLIR's microbolometer trade secrets. Unfortunately for FLIR, its lawsuit was not sufficiently calibrated to California's trade secrets law.

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In California - unlike many other states - there is no trade secrets doctrine of "inevitable disclosure." This means that California courts will not assume that an employee inevitably will disclose trade secrets in his or her new job because it would be next to impossible not to disclose them given the similarities between the new and former jobs.

While the evidence certainly looked suspicious, and the two former Indigo principals had intended to compete with FLIR in the microbolometer business, FLIR could not demonstrate any actual or threatened misappropriation of trade secrets. The trial judge found that FLIR erroneously had brought its lawsuit on the theory of "inevitable disclosure," which again is not recognized in California.

Adding further insult to injury, loss didn't end there. Because FLIR had alleged an untenable theory, the court deemed it "objectively specious." In addition, there was evidence that FLIR brought its claims in bad faith. For example, when asked why the lawsuit was filed, FLIR's CEO testified, "We can't tolerate a direct competitive threat by [defendants] Bill and Tim." The combination of objective speciousness and bad faith resulted in the Court's ordering FLIR to pay the defendants' attorneys' fees and costs, **which exceeded \$1.6 million**. The Court of Appeals affirmed this double-loss result for FLIR.

The lesson from this decision is: don't file a trade secrets claim in California unless you (1) have a viable legal theory under relevant California law; (2) have sufficient evidence that the defendants are actually using your trade secrets or overtly threatening to do so; and (3) are not using the lawsuit to halt legitimate competition.