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Employers Should Carefully Consider Whether To Sue Former Employees For Threatened Trade Secret Misappropriation Based On Recent California Court of Appeal Decision Awarding Over $1.6 Million To Former Employees

A recent decision by a California Court of Appeal should give employers pause before they use California's trade secret laws to try to stifle competition in violation of California law.

In the case of FLIR Systems, Inc. v. Parrish, the Court of Appeal affirmed a decision by the trial court awarding $1,641,216.78 in attorneys' fees and costs to two former employees who successfully defended a trade secret action brought by their former employer. The Court agreed with the trial court that the action was filed and maintained in bad faith within the meaning of the California Uniform Trade Secrets Act.

In this case, two former employees of Indigo Systems Corporation ("Indigo") left Indigo and decided to start a new company based on a business plan developed by one of them years ago when he was self-employed. The former employees discussed their plans with Indigo. When Indigo's parent company, FLIR Systems, Inc. ("FLIR"), passed on the idea set about to find a new business partner, the former employees entered into negotiations with Raytheon Company ("Raytheon") after assuring Indigo and FLIR that they would not appropriate any of Indigo's trade secrets.

FLIR became concerned that the new company would undermine its market share and sued for injunctive relief and damages on the theory that the former employees would inevitably misappropriate trade secrets, arguing threatened misappropriation. Raytheon pulled out of the deal with the former employees and the former employees then advised FLIR and Indigo that they were not moving forward with the new company.

At the trial for a permanent injunction, the trial court found no misappropriation or threatened misappropriation of trade secrets. The trial court also found that the action was brought in bad faith based on a theory of "inevitable disclosure" – a theory previously rejected by the California Supreme Court because it conflicts with California's strong public policy in favor of employee mobility.

The Court of Appeal agreed with the trial court that FLIR and Indigo brought the action for injunctive relief to stifle competition because they were concerned that the proposed new company would have been a direct competitive threat. FLIR and Indigo had no evidence or even a reasonable suspicion that the former employees had misappropriated trade secrets or had threatened to do so, or that FLIR and Indigo had suffered any damages or were threatened with imminent harm. The Court of Appeal held that "Mere possession of trade secrets by a departing employee is not enough for an injunction."

This case provides employers with an important reminder of California's strong public policy in favor of employee mobility and the right to compete with a former employer. Employers cannot use the California Uniform Trade Secrets Act to do an end-run around California Business and Professions Code section 16600 by, for example, bringing a trade secret action against a former employee to prevent them from forming a competing business or joining a competitor unless there is evidence of threatened or actual misappropriation of trade secrets. Filing a trade secret action simply to preserve a competitive advantage in the marketplace is risky and could result in expensive sanctions. Employers should consult with counsel and carefully consider their motivation for filing any trade secret action and the evidence they have to support such a claim before the action is filed. A former employer's honest assessment of the strength of the case and motivation for litigating should continue throughout the litigation.