

Ethical Issues in Trade Secret Cases  
Brainstorming Group Outline v7

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## ***I. Introduction***

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Trade secret disputes can create professional risks for both the plaintiff and defendant, as well as their counsel, as the ongoing need to evaluate the dispute while facts are developed can uncover potential ethical issues. This can be especially challenging given how quickly trade secrets cases typically move and the intense pressure from both clients and adversaries. It is important for lawyers to ensure that these ethical issues are not lost in the triage and do not end up as afterthoughts.

The continual advances in technology that are not only increasing the potential sources of trade secrets, but also the complexity of the workplace environments and the potential sources of stored information, make clear there is a keen need to stay abreast of developments in such areas to avoid ethical lapses and/or the imposition of potentially drastic sanctions.

This paper will explore a number of these ethical issues trade secret counsel may encounter with the intent of providing recommended approaches to handling such issues before and as they arise. Set out below are a series of four primary topics under which a number of ethical issues may arise and as for each a set of key issues to consider. In the course of considering these key issues, the working group intends to develop a set of principles for addressing these key issues. This is a living document and will evolve as the discussions among the brainstorming group members proceed.

## II. [Issue No. 1] Representation of Multiple Clients

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- Key issue: Counsel must continue to consider and monitor development of potential conflicts as a representation develops over time. The attorney owes each of the clients an equal degree of loyalty and cannot favor the interests of one over the other. See, e.g., *Nelson Bros. Profl Real Estate, LLC v. Freeborn & Peters, LLP*, 773 F.3d 853 (7th Cir. 2014); compare *Felix v. Balkin*, 49 F. Supp. 2d 260 (S.D.N.Y. 1999) with *Frontline Communications Intern. v. Sprint Communications*, 232 F. Supp. 2d 281 (S.D.N.Y. 2002).
- Key issue: In context of litigation, as discovery proceeds and one client appears to have kept allegedly misappropriated trade secret information or destroyed evidence, the rest of the clients may become interested in pointing the finger at that client. If the individuals stick together or appear were acting in coordination, the company defendant may wish to distance itself. The discovery of the involvement of other people may also shift the interests of individual clients. This might require withdrawal from representation. See e.g., Model Rules 1.16(a)(1) and Rule 1.7. Consider *In re Corn Derivatives Antitrust Litig.*, 748 F.2d 157 (3d Cir. 1984); *Grant Heilman Photography, Inc. v. McGraw-Hill Global*, 2018 WL 2065060 (E.D. Pa. May 2, 2018); see also *Carroll v. Superior Court*, 124 Cal. Rptr. 2d 891 (Cal. Ct. App. 2002); *In re T.C.*, 191 Cal. App. 4th 1387 (2010).
- Key issue: A related issue is the ethical triggers inherent to common interest/joint defense arrangements within trade secret cases involving the representation of multiple clients whose alignments may change over time. Standard terms in such agreement relating to the sharing of information, payment of fees and indemnification provisions may create conflicts as the representations develop.

**[Proposed] Principle No. 1 – When representing multiple clients in trade secret matters, assessment of conflicts should be checked at the start of and at each new stage of the representation.**

### A. INITIAL RETENTION

Informed consent of each of the multiple clients requires that each is aware of the relevant circumstances and of the material and reasonably foreseeable ways that the conflict could have adverse effects on the interests of that client. See ABA Rule 1.0(e) (informed consent). Representation of multiple clients in a single matter requires that the information to share with clients for informed consent must include the implications of the common representation, the effects on loyalty, confidentiality and the attorney-client privilege and the advantages and risks involved. A detailed joint representation letter outlining these considerations as well as the potential impact of a change in circumstances is necessary and recommended. (Sample?) But it is not necessarily sufficient in all situations.

Is there a significant risk that a lawyer's ability to consider, recommend or carry out an appropriate course of action for the client will be materially limited as a result of the lawyer's other responsibilities or interests? If so, then there is a conflict. Comment to Rule 1.7

Is there a course of action for one client that forecloses alternatives for another that would otherwise be available to that client? If so, then there is a conflict.

Is there active, contentious litigation or negotiations between clients? Is such action imminent or contemplated? If there is active litigation between clients, then representing both must be declined.

Is the lawyer able to maintain impartiality between the clients? If not, then representing them all would be improper.

## B. FACTUAL INVESTIGATION

In the course of developing an understanding of the representation, a lawyer may uncover factual information from or about a client that is favorable to one client and detrimental to another. In such instance, the lawyer may not continue representing either client without harming the other. See, e.g., Model Rule 1.16(a)(1) (requiring withdrawal if “the representation will result in violation of the rules of professional conduct or other law”)

For example, the duty to preserve evidence should be assessed for each client. It could be that one client’s duty to preserve arose before another. If that client did not satisfy its duty and that failure is detrimental to the other client, the lawyer should withdraw absent informed consent from the hindered client.

Have the clients reasonably and timely preserved evidence related to the dispute? If not, then a conflict between the clients may exist.

Does one client have harmful evidence against another client that would be discoverable to an opposing party?

Do the witnesses for each client know who you represent? Through interviews of employees, agents, even executives of the actual clients, those witnesses may share evidence detrimental to themselves thinking you are their lawyer. Make sure you give an appropriate Upjohn warning. *Upjohn Co., et al. v. United States, et. al.*, 449 U.S. 383 (1981). Upjohn warnings are intended to make sure that the individual giving information and being questioned understands that the attorney represents only the company and not the witness and that the company not the witness solely controls the attorney-client privilege relating to the interview. If the warnings are not sufficient, the individual will keep control of the privilege and may restrict the company from sharing information.

## C. PLEADINGS

Does one client have information requiring an admission of an allegation that is harmful to another client? If so, there is a conflict.

In prosecuting a complaint, consider fully whether the allegations are supported by the facts and that none of your clients have information contradicting those allegations. Filing a trade secret action in which a plaintiff was later shown to possess evidence that contradicted factual allegations when filed and asserted a theory of recovery that was not valid is potentially sanctionable conduct. See, e.g., *Homecare CRM, LLC v. Adam Group, Inc. of Middle Tenn.*, 952 F. Supp. 2d 1373 (N.D. Ga. 2013).

### Commented [BF1]:

This requires further discussion. Comments below.

Matthew Prewitt: This is not correct. This standard would make joint representations almost impossible in most cases.

Jennifer Kenedy: Not sure I agree with this comment; a conflict is a conflict; so we can leave the text and comment here and discuss.

#### **D. DISCOVERY**

If written discovery reveals an error in a prior pleading as to one client, can it be corrected without harming the other clients? ABA Model Rule 3.3 prohibits attorneys from making false statements to a tribunal or failing to correct a statement once known to be false. See also, Model Rule 8.4 (prohibiting attorneys from engaging in conduct involving dishonesty).

Reaffirm *Upjohn* warnings as appropriate before depositions of witnesses. If testimony of a witness at a deposition yields information that a client should have produced but did not, can this be cured without harming the other clients?

If one client has kept, without authorization, allegedly trade secret information or destroyed evidence, the rest of the clients may become interested in blaming that client. If individual clients reveal they were always acting in concert, the company defendant may wish to distance itself from these individuals. In both cases, a conflict is present.

#### **E. MOTION PRACTICE**

A good time to double-check your factual investigation against discovery revelations to ensure nothing was improperly withheld at the outset.

If discovery has revealed a basis for dispositive motion for one client but not another, be sure asserting it does not adversely impact the other. If it does, a conflict exists.

#### **F. PRETRIAL**

Reaffirm your witnesses know who you represent. Confirm your *Upjohn* warnings.

Are any of your motions *in limine* prejudicial to any of the jointly-represented clients? If so, they may need to hire separate counsel.

#### **G. TRIAL**

Check for unexpected admissions or testimony that helps one client to the detriment of the other.

Are any of your arguments on appeal prejudicial to any of the jointly-represented clients? If so, they may need to hire separate appellate counsel.

### ***III. [Issue No. 2] Obligation not to Assert a Trade Secrets Claim or Defense that Lacks Actual Merit***

- Key issue: Prior to filing, counsel prosecuting must have a “good faith” belief in the
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assertion of the right to trade secret protection for their clients on both factual and legal grounds. See, e.g., ABA Model Rule of Prof. Responsibility 3.1; consider *Homecare CRM, LLC v. Adam Group, Inc. of Middle Tenn.*, 952 F. Supp. 2d 1373 (N.D. Ga. 2013); Fed. R. Civ. P. 11 (and analogous state rules).

- Key issue: The “good faith” obligation imposed on counsel continues throughout the dispute and must be reassessed as new or different information may become available. See also Fed. R. Civ. P. 11, 26(e) and 37(c); *LiiON, LLC v. Vertiv Grp. Corp. et al.*, 2021 WL 4963610, Slip Copy (2021).
- Key issue: ethical duties in cases where serial filings by client or adversary against a competitor suggest malicious prosecution to harm the competitor vs. actual trade secret misappropriation (this flows from second bullet above)
- Key issue: Counsel must balance a duty of candor to the tribunal and/or to correct the record with a duty of confidentiality and zealous advocacy on behalf of the client when a client’s facts and/or evidence creates a question about authenticity or truthfulness of evidence and testimony but without definitive or relatively certain evidence of its “untruthfulness”. See, e.g., Model Rules 3.3 and 1.4; consider *LBDS Holding Company, LLC v. ISOL Technology Inc. et al*, Civil Action No. 6:11-cv-00428-LED (E.D. Tex., May 15, 2015).

**[Proposed] Principle No. 2 – Counsel in a trade secrets dispute should not assert a claim or defense that counsel knows or reasonably should know would lack any reasonable factual or legal basis upon a trial or hearing of a fully developed record.**

**[Proposed] Principle No. 3 – Counsel in a trade secrets dispute should not demand in settlement negotiations covenants in restraint of trade that counsel knows or reasonably should know materially exceed in scope the restraints on competition that a court might lawfully have awarded upon a trial or hearing of a fully developed record.**

#### **Summary of Issue:**

The law of trade secrets at its core is about distinguishing when and when not to restrain competition in order to advance the strong public interest in innovation and developing commercially useful knowledge and technology.

The potential for bad faith trade secrets claims to be asserted for the purpose of impeding fair competition is well recognized. Expedited proceedings with limited time to probe the merits, compressed discovery and briefing schedules, and in some instances *ex parte* motions all contribute to an erosion of many of the checks on bad faith litigation tactics. Trade secrets litigation provides a bad faith litigant broad opportunities to impose significant burden, disruption, and expense on an adversary.



Although bad faith bullying tactics are hardly unique to trade secrets litigation, there are at least five issues that amplify this issue for attorneys representing trade secrets claimants.

First, trade secrets disputes are often resolved by confidential settlement agreements between competitors that include prospective restraints on competition. Because trade secrets disputes are typically very fact intensive and are often settled at an early stage of litigation before development of a full factual record, it may be exceedingly difficult for a third party reviewing a settlement agreement in hindsight to distinguish between a settlement that fairly reflects the merits of the case and a settlement that is the product of bad faith. And because most settlement agreements will be subject to confidentiality, few settlement agreements will ever be subject to any third party review at all. This invites abuse.

Second, restraints on competition imposed by settlement necessarily implicate strong competing public interests and may often have a substantial impact on the rights of third parties who have no notice, no knowledge, and no ability to challenge the agreed restraints. For example, a defendant employer in a trade secrets dispute brought by a competitor may agree not to solicit or to hire the plaintiff's employees for a period of time. As between the plaintiff and defendant, the no-poach agreement may be an attractive settlement deal term because a substantial part of the economic burden can be externalized to the employees whose economic opportunity is impeded.

Third, the front-loaded burden, disruption, and expense of the expedited proceedings associated with motions for temporary restraining orders and preliminary injunctions can create substantial settlement leverage for a plaintiff unrelated to the merits of the claim. The compressed proceedings offer defendants few procedural safeguards against abusive litigation tactics and often afford the plaintiff a significant tactical advantage.

Fourth, because most trade secrets disputes are resolved by settlement without a fully developed discovery record, the professional risks for counsel and clients asserting a bad faith claim or defense are often lower than in other litigation. If a case is likely to be resolved after only 60 days of litigation, counsel and clients may be emboldened by the likelihood that misconduct will never come to light.

Fifth, from the client's perspective, trade secrets litigation only rarely is a straightforward commercial dispute. Most cases involve emotional and reputational issues and broader strategic objectives for staking out or protecting market share or re-positioning the broader relationship between competitors. A client's business leadership may be less receptive to the professional advice and counsel of the attorney and may be more likely to exert pressure on the attorney to achieve through litigation objectives that bear little relationship to the actual legal merits of the suit.

The commentary on the two above principles will address these issues in each stage of a trade secrets dispute:

- The pre-suit demand letter
- Weighing the need for *ex parte* or expedited proceedings against affording an adversary fair notice and a reasonable opportunity to be heard
- Proportional discovery and case management
- Leveraging litigation burden and expense in settlement negotiations

- Settlement agreements between competitors as pretexts for unlawful agreements in restraint of trade

Because criminal prosecutions raise distinct ethical issues, this section focuses solely on civil litigation.

The starting point for the analysis is the Model Rules of Professional Conduct, particularly Rules 1.2, 2.1, 3.1, and 4.4. We compare these rules with other sources of law regulating bad faith litigation tactics, including:

- UTSA and DTSA “bad faith” case law
- Malicious prosecution case law
- Crime-fraud exception for attorney-client privilege
- Rule 11 and related generally applicable standards
- DOJ guidance on litigation settlement agreements between competitors that impose prospective restraints on competition

As is so often true in our profession, defining the boundary between zealous advocacy and ethical breach can be challenging. The starting point for the two proposed principles is that trade secrets counsel have an ethical obligation to advocate for litigation outcomes that align with the actual merits of the dispute as known to the attorney. An attorney who advances a claim or defense in a preliminary injunction hearing that facially appears to have merit only because the attorney has not yet provided discovery to the opposing counsel is violating the standards of our profession. The same is true for an attorney who seeks to increase the burden or expense of expedited proceedings solely to coerce an adversary’s consent to prospective competitive restraints that exceed any plausible request for relief the party might win in court.

In conclusion, this section will comment that part of maintaining professional standards in trade secrets litigation is having the good judgment and self-restraint to assert that opposing counsel is engaged in an ethical breach only when such an accusation has substantial basis. Because of the pace and intensity of trade secrets litigation, counsel should consider the possibility that what at first appears to be bad faith tactics may be simply the result of confusion or lack of information or an honest disagreement. Bad faith accusations of ethical violations for tactical advantage are a serious breach of professional standards.

## ***IV. [Issue No. 3:]Potentially Misappropriated Trade Secrets***

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- Key issue: Advice regarding the handling and disposition of potentially misappropriated trade secrets
- Key issue: The situation often arises where someone possesses trade secret information belonging to someone else, but the trade secret owner does not yet know it or has not raised the issue. For example, it is not unusual for an employee to have information in their personal possession following the end of employment (whether for legitimate or illegitimate reasons) by virtue of having saved the information to a personal device, sent it to a personal email address, uploaded it to a personal cloud storage account or printed it in hard copy. In representing such an individual or the individual's new employer, the question arises as to what should be done with the information. Should it be destroyed or deleted or should it be returned to the trade secret owner? If it is going to be destroyed or deleted, should it be forensically preserved first if there is no litigation or threat of litigation? Is it legally and ethically permissible to simply delete or destroy the information or have it forensically preserved without notifying the trade secret owner?
- The legal and practical aspects of this issue are addressed in the Sedona Conference *Commentary on Protecting Trade Secrets Throughout the Employment Life Cycle*, published in June 2021. This group will address the ethical issues implicated by this common scenario.

**[Proposed] Principle No. 4** – Absent a “return of property” or “return of information” provision in an applicable agreement, by counseling a client or participating in a decision by a client not to return trade secret information to its owner, counsel is not unlawfully obstructing the owner's access to evidence in violation of ABA Model Rule 3.4.

**[Proposed] Principle No. 5** – When counsel represents an organization, but not the individual or individuals who may have kept or taken trade secret information from a former employer, counsel may request the employee to refrain from voluntarily informing the former employer that trade secrets may have been kept or taken if counsel reasonably believes that the employee's interests will not be adversely affected by refraining from giving such information.

ABA Model Rule 3.4 (Fairness to Opposing Party & Counsel) provides in pertinent part as follows:

A lawyer shall not:

- (a) unlawfully obstruct another party's access to evidence or unlawfully alter, destroy or conceal a document or other material having potential evidentiary value. A lawyer shall not

counsel or assist another person to do any such act; ...

(f) request a person other than a client to refrain from voluntarily giving relevant information to another party unless:

- (1) the person is a relative or an employee or other agent of a client; and
- (2) the lawyer reasonably believes that the person's interests will not be adversely affected by refraining from giving such information.

The Comment to this Rule further provides as follows: "[4] Paragraph (f) permits a lawyer to advise employees of a client to refrain from giving information to another party, for the employees may identify their interests with those of the client. *See also* Rule 4.2."

Absent a "return of property" or "return of information" provision in an applicable agreement, there is no legal obligation to return trade secret information to its owner as long as the information is not used or disclosed. Therefore, by counseling a client or participating in a decision by a client not to return such information to its owner, a lawyer is not "unlawfully" obstructing the owner's access to evidence. Similarly, as long as the information is preserved before it is deleted or removed from the possession of the client, the information has not been "unlawfully" altered, destroyed or concealed.

When a lawyer represents an organization, but not the individual or individuals who may have kept or taken trade secret information from a former employer, the lawyer may request the employee to refrain from voluntarily informing the former employer that trade secrets may have been kept or taken if the lawyer reasonably believes that the employee's interests will not be adversely affected by refraining from giving such information. As the Comment provides, paragraph (f) permits a lawyer to advise employees of a client to refrain from giving information to another party (such as a former employer) because the employees may identify their interests with those of their current employer.

**[Proposed] Principle No. 6 – Counsel should not counsel a client to engage in conduct involving trade secret information that the lawyer knows is criminal or fraudulent.**

**[Proposed] Principle No. 7 – Counsel should not knowingly make false statements of material fact or law to a third person regarding the client's possession of trade secret information or fail to disclose a material fact when it is necessary to avoid assisting the client's criminal or fraudulent conduct, if it can be done without violating the client's right to confidentiality.**

While a client may not be obliged to return information, an attorney must comply with her jurisdiction's equivalent of ABA Model Rule 1.2: "(d) A lawyer shall not counsel a client to engage, or assist a client, in conduct that the lawyer knows is criminal or fraudulent, but a lawyer may discuss the legal consequences of any proposed course of conduct with a client and may counsel or assist a client to make a good faith effort to determine the validity, scope, meaning or application of the law." The more obvious example would be where the lawyer advises a client to use information known to be a trade secret.

The fact that a client uses advice in a course of action that is criminal or fraudulent of itself does not make a lawyer a party to the course of action. “There is a critical distinction between presenting an analysis of legal aspects of questionable conduct and recommending the means by which a crime or fraud might be committed with impunity. ABA Model Rule 1.2, Comment [9]. If the client asks the lawyer about the consequences of use of information, the attorney may in good faith give her legal analysis and opinion.

While the Rule applies only where the lawyer “knows” conduct is criminal or fraudulent, some jurisdictions hold that the lawyer cannot evade this ethical obligation by failing to make reasonable inquiry where the facts suggest representation might aid the client in fraud or a crime. If the client persists in a course of action that the lawyer reasonably believes is criminal or fraudulent or the client has used the legal services to perpetrate a crime or fraud, the lawyer may withdraw from representation. ABA Model Rule 1.16(b)(2) and (3).

ABA Model Rule 4.1 concerns truthfulness in statements to others. It provides:

In the course of representing a client a lawyer shall not knowingly:

- (a) make a false statement of material fact or law to a third person; or
- (b) fail to disclose a material fact when disclosure is necessary to avoid assisting a criminal or fraudulent act by a client, unless disclosure is prohibited by Rule 1.6.

The Comment to Rule 4.1 expounds on the rule. It recognizes that an attorney generally has no affirmative duty to inform an opposing party of relevant facts. However, misrepresentations are not only that of the attorney – they include a lawyer’s incorporation or affirmation of a statement of another person that the lawyer knows is false. Absent inquiry by the owner of potential trade secret information, Rule 4.1(a) does not impose an affirmative requirement on an attorney to make any statements about a client’s possession of information to a third party.

Rule 4.1(b) is of greater concern here, where a client’s crime or fraud takes the form of a lie or misrepresentation. The comment explains: “Ordinarily, a lawyer can avoid assisting a client’s crime or fraud by withdrawing from the representation. . . . In extreme cases, substantive law may require a lawyer to disclose information relating to the representation to avoid being deemed to have assisted the client’s crime or fraud. If the lawyer can avoid assisting a client’s crime or fraud only by disclosing this information, then under paragraph (b) the lawyer is required to do so, unless the disclosure is prohibited by Rule 1.6.” That Rule concerns confidentiality of information and provides in part:

- (a) A lawyer shall not reveal information relating to the representation of a client unless . . . the disclosure is permitted by paragraph (b).
- (b) A lawyer may reveal information relating to the representation of a client to the extent the lawyer reasonably believes necessary:
  - . . . .
  - (2) to prevent the client from committing a crime or fraud that is reasonably certain to result in substantial injury to the financial interests or property of another and in furtherance of which the client has used or is using the lawyer’s services;
  - (3) to prevent, mitigate or rectify substantial injury to the financial interests or

property of another that is reasonably certain to result or has resulted from the client's commission of a crime or fraud in furtherance of which the client has used the lawyer's services. . .

ABA Model Rule 1.6. Notably, such a disclosure may be to “affected persons or appropriate authorities.” Where the client’s conduct constitutes a serial abuse of the attorney-client relationship, the client forfeits the protection of this Rule. Still, the Rule does not require the lawyer to reveal the client’s misconduct, but rather only information “to the extent necessary.” ABA Model Rule 1.6, Comment [7]. Bear in mind that this Rule protecting confidentiality extends even to previously disclosed or publicly available information.

For example, if the attorney learns that the client’s employee lied to the former employer about possessing its information and notifies the attorney that he is actively using trade secrets, the attorney may have to withdraw from representation or in extreme circumstances make disclosures to affected persons or appropriate authorities. Greater ethical duties of disclosure may arise if the former employer makes inquiries of the lawyer about the information and the attorney is asked to communicate on behalf of the client.

## ***V. [Issue No. 4] Addressing Simultaneous Criminal Investigations or Proceedings and Civil Litigation***

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- Key issue: When a client is involved in a separate criminal proceeding or investigation involving allegations of an intent to engage in, engaging in, or past engagement of criminal or fraudulent conduct as to the same issues as in civil litigation, counsel in the civil litigation must take reasonable remedial measures, including potential disclosure to the civil tribunal. *See* Model Rule 3.3.
- Key issue: The disclosure to a tribunal may require disclosure of information otherwise protected as confidential information. *See* Model Rule 1.6. Where such a disclosure may vitiate protection of a trade secret, there is an added complication in balancing the duty of candor to the tribunal with the counsel's confidentiality obligation to the client.
- Key issue: Consider also whether a threat to reference or reference to a criminal proceeding in the civil tribunal is made with the intention to gain advantage or has the effect of gaining an advantage in a civil proceeding. *See, e.g.,* Model Rule 8.4.

**[Proposed] Principle No. 8 – While litigants in a trade secrets matter cannot threaten criminal prosecution to gain an advantage in the civil matter, when there are ongoing parallel civil and criminal trade secret cases the parties on both sides need to be aware of any potential special considerations that may affect the availability of evidence and witnesses or the overall progress of the cases.**

While not entirely unique to trade secrets litigation, there is always a significant possibility for a parallel criminal action because the underlying conduct at issue can give rise to criminal prosecution under both federal and state criminal codes.<sup>1</sup> The term “parallel proceedings” generally refers to two separate cases – civil and criminal – based on the same factual circumstances that occur at the same time, or in succession.

While parallel proceedings, by nature of how privileges and discovery proceed, create unique pitfalls and opportunities for the litigants pursuing or defending against a civil trade secrets matter, it is paramount that each proceeding maintain its own integrity – that is, that neither proceeding be brought or pursued for the purpose of leveraging an advantage in the other.

For example, the civil litigants should not threaten the use of criminal proceedings in the civil proceedings as it may not only violate state professional rules of ethical conduct but on the extreme end could also be construed as extortion. *See* Model Rule 8.4(e)(it is professional misconduct to

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<sup>1</sup> In addition to federal statutes such as 18 U.S.C. § 1831 (economic espionage), § 1832 (theft of trade secret), some states may have criminal laws that expressly criminalize theft of trade secrets (*e.g.* California Penal Code Section 499(c)).

state or imply an ability to influence improperly a government agency or official or to achieve results by means that violate the Rules of Professional Conduct or other law). Conversely, criminal prosecutors should not use or guide the civil proceedings as an informal means to obtain discovery or information.

The following three preliminary considerations for attorneys in a trade secrets matter that has potential or actual parallel criminal counterpart are:

- (1) Could or Should the Pending Civil Action be Stayed Pending the Criminal Action?
- (2) Could or Should a Defendant Assert the Fifth Amendment Privilege in the Civil Action?
- (3) How Will the Different Discovery Obligations in the Parallel Civil and Criminal Cases Affect the Client?

#### **A. THE COURT HAS THE DISCRETION TO STAY THE CIVIL MATTER**

This does not necessarily mean that the civil litigants are completely banned from mentioning the existence of a parallel criminal prosecution to the civil tribunal. As in fact, the civil tribunal may stay the civil proceeding in light of the pending criminal prosecution – especially if the criminal case has moved past mere investigation to an indictment. In deciding whether to stay a civil action, the courts generally consider the following factors in determining whether the interest of justice is served by staying the civil action:

- (1) the degree to which the defendant's right against self-incrimination is affected;
- (2) the plaintiff's interest in a speedy proceeding, and the prospective prejudice to the plaintiff if there is a delay;
- (3) the burden that the proceedings would have on the defendant;
- (4) the convenience to the court, in terms of case management and efficiency;
- (5) the interests of parties who are not involved in the civil litigation; and
- (6) the public interest in the civil and criminal proceedings.

*See Keating v. Office of Thrift Supervision*, 45 F.3d 322, 324–25 (9th Cir. 1995).

#### **B. THE DEFENDANT MAY ASSERT THE FIFTH AMENDMENT PRIVILEGE IN BOTH THE CRIMINAL AND CIVIL MATTERS**

In defending a litigant in a trade secrets matter, the attorney should always, consider whether, how and when the client should be asserting the Fifth Amendment Privilege – and especially when there is a hint of a criminal investigation. While in a criminal proceeding, no adverse inference can be drawn from a defendant's assertion of the Fifth Amendment privilege, in a civil proceeding such inference can be used against a defendant.<sup>2</sup> Additionally, there are other considerations such as (a) the risk of waiving the Fifth Amendment by not asserting it early enough,

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<sup>2</sup> While this is the standard in federal civil proceedings and in many states, it is worthwhile to double check how the specific jurisdiction handles the assertion of the Fifth Amendment in civil proceedings.



or (b) foreclosing the possibility of cooperating with the government in a way that is favorable to the client by asserting the Fifth Amendment, or (c) providing information that can be used against the client by not asserting the Fifth Amendment, and (d) other case-specific factors (e.g., client's exposure to criminal prosecution, prosecutor's commitment to the criminal prosecution, the number of parallel proceedings, the information being sought).

### **C. DISCOVERY RULES ARE DIFFERENT FOR CRIMINAL AND CIVIL PROCEEDINGS**

In criminal matters, the government's discovery obligations are dictated by Fed. R. Crim. P. 16, *Brady v. Maryland*, 373 U.S. 83 (1963)(exculpatory evidence), *Giglio v. United States*, 405 U.S. 150 (1972)(witnesses who have entered into deals) and the *Jencks Act* (witness statements to law enforcement), and there is an obligation to maintain grand jury secrecy. In general, the government may have broader obligations to turn over information and documents in discovery but on a delayed timeline. However, discovery in civil matters, governed by the Federal Rules of Civil Procedure, is conducted earlier in proceedings and may be broader than the discovery in criminal matters. What can easily happen when these two types of cases occur simultaneously is that statements made to law enforcement can be turned over to a defendant in the civil case and conversely the defendant in a civil case may use civil discovery to obtain information about the criminal case much sooner than would be allowed in the criminal proceeding itself.