

WHAT HAPPENS AT WORK STAYS AT WORK

The California Employer's Approach To
A National Program for Restrictive
Covenants and Trade Secret Protection

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The California Landscape: A Refresher

- > Post-Termination Non-Competes
 - Unenforceable under Bus. & Prof. Code §16600 and *Edwards v. Arthur Andersen*
 - Other jurisdictions may allow if reasonably necessary to protect legitimate business interests and if reasonable in time and geographical scope
 - Designating another state's law as controlling will not override CA public policy
 - The “race to the courthouse”





The California Landscape: a Refresher

- > Non-competes may be enforceable IF:
 - Qualifies under sale or dissolution of business ownership exception
 - During employment
 - For non-solicitation of customers and employees if necessary to protect trade secrets
 - Caution: *Edwards v. Arthur Anderson* did not rule on the “trade secret exception”; subsequent CA and federal courts in flux
 - Contained in an ERISA plan (preemption)
 - Garden Leave -- not yet tested in CA
 - Legitimate forum selection and choice of law clauses

The California Landscape: a Refresher

> Non-solicitation of customers

- Unenforceable as a non-compete
- Enforceable to protect trade secrets?
- Customer lists or other information regarding customers can be a trade secret





The California Landscape: a Refresher

- > Non-solicitation of employees may be enforceable
- > Potential corollary claims for misappropriation of trade secrets, unfair competition, interference with contract, prospective economic advantage
- > No-hire agreements may be unenforceable
- > Anti-trust implications of no-hire clauses

The California Landscape: a Refresher

- > Trade secrets and misappropriation
 - CUTSA (like 46 other states which have adopted the Uniform Trade Secrets Act in some form)
- > What is a trade secret?
 - Information that:
 - Derives *independent economic value* from not being generally known to public or others who can obtain economic value from its disclosure or use; and
 - Is the subject of efforts that are *reasonable under the circumstances* to maintain its secrecy



The California Landscape: a Refresher

- > What is a trade secret (cont'd)?
 - Independent economic value: The secrecy of the information provides a “substantial business advantage”
 - Confidential customer list would allow a competitor to solicit more selectively and more effectively
 - Negative information, such as the results of lengthy and expensive research proving that a certain process will *not* work could be of great value to a competitor



The California Landscape: a Refresher

> What is a trade secret (cont'd)?

– Not generally known:

- Must be unknown by those to whom the information would be of economic benefit (*i.e.*, industry people, not the general public)
- Must not be readily ascertainable

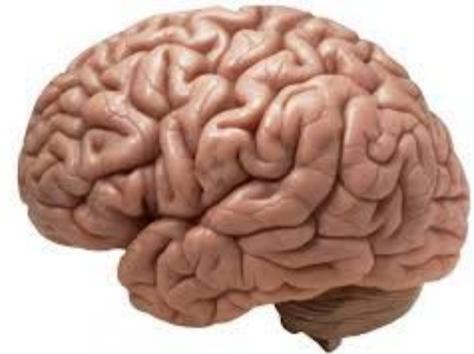
– Reasonable efforts to protect confidentiality:

- Access is limited to those who “need to know”
- Confidentiality agreements
- Electronic and physical barriers/controls.
- Need not turn business into an “impenetrable fortress”



The California Landscape: a Refresher

- > What is not a trade secret?
 - Specialized knowledge or skills utilized during employment but acquired from sources other than the employer (e.g., techniques developed during course of earlier employment)
 - Information fully disclosed by the products (e.g., product design features)
 - One CA case holds that salary information does not have “independent economic value” and is not a trade secret
 - Lists of customers in an open, competitive market





Trade Secrets: a National Program

- > Draft Reasonable Confidentiality/Non-Disclosure Agreements
 - Limit to reasonable scope
 - Defining confidential or trade secret information too broadly can lead to difficulties in enforcement
 - Limit to legitimate business interests
 - Identify the real trade secrets
 - Do not extend to every facet of the employees' work with the company
 - Consistent with public policy
 - Unduly burdensome policies may not be enforceable.
 - Cannot effectively prevent specialized employees from continuing to work in their field

Trade Secrets: a National Program

- > Publish Strong Deterrents For Employees
 - Severe and immediate sanctions for intentional misappropriation
 - Civil litigation
 - Criminal referral
 - Economic Espionage Act (18 U.S.C. § 1832)
 - Fines
 - Restitution
 - Prison
 - Computer Fraud and Abuse Act (18 U.S.C. § 1030)
 - Who is authorized for what level of access?





Trade Secrets: a National Program

- > Regularly Revisit and Revise
 - Involve all stakeholders: IT, Security, Finance, R&D, HR
 - Keep pace with evolving technological environment
 - Evaluate level of technological investment that is appropriate to the sensitivity and importance of the information
 - Administration Strategy to Mitigate Theft of U.S. Trade Secrets (See, www.whitehouse.gov)
 - Track emergence of federal trade secret legislation
 - Congress has been actively considering federal legislation (Protecting Trade Secrets and Innovation Act of 2012; Private Right of Action Against Theft of Trade Secrets Act of 2013)

Trade Secrets: a National Program

> Limit Access

- Only employees who *need to know* should have access to sensitive information
- Implement effective data security
 - National Institutes of Standards and Technology (NIST) Preliminary Cybersecurity Framework
 - Password management
 - Employee training regarding vulnerabilities and attack vectors
 - Compartmentalize sensitive trade secrets
 - Insert codes or tags into sensitive electronic documents to prevent copying, printing, and externally e-mailing
 - Implement policies to mitigate inbound threats from new hires as well as outbound threats from departing employees



Trade Secrets: a National Program

> Social Media

facebook

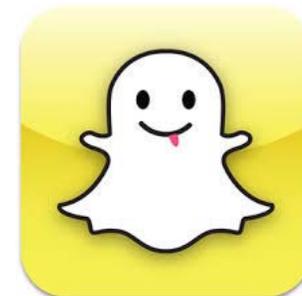


- Provide regular training and be clear about expectations
- Can protection of confidential customer lists survive the era of LinkedIn?
- Explicitly incorporate into nondisclosure policies and agreements
 - Be clear that customer contact information and preferences are confidential
 - LinkedIn company contacts set to private, and deleted upon departure; consider business account ownership
 - Assert ownership of social media content developed on the job or with company resources or confidential information
- Ensure that policies do not overreach or infringe rights under federal law (e.g., NLRA, Stored Communications Act) and state law

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Trade Secrets: a National Program

- > BYOD – Bring Your Own Device
 - Information is increasingly traveling outside of typical corporate controls
 - Cross-platform messaging sites for smartphones like WhatsApp & Secret
 - Photo and video sharing sites like Vine & Instagram
 - Instant destruction messaging services like Snapchat, Wickr, TigerText, Ansa & Skim
 - Discovery preservation obligations, internal investigations, and emboldened employees



Trade Secrets: a National Program

- > BYOD (cont'd)
 - Include BYOD in your confidentiality policies, agreements, and practices
 - Prohibit use of non-approved apps to convey company information
 - Implement security measures on devices and obtain written employee consent as a condition of access
 - “Sandboxing”
 - Remote wiping
 - Review for compliance with policy
 - Consider a duty to report as a means of avoiding active monitoring



Trade Secrets: a National Program

> The Cloud

- Increasing use of cloud-based storage for personal and business data presents risks
 - Loss of control of company data uploaded to personal cloud accounts
 - Cloud storage not directly subject to company confidentiality, trade secret, and security policies.
 - Many BYOD smartphones are backed up to third party cloud accounts (e.g., iCloud), placing them out of reach when an employee departs, and syncing confidential information back to the departing employees device after departure
- Address cloud storage in confidentiality policies and agreements
- Address cloud storage in employee training



CNC/NSA: a National Perspective

- > What state law and forum will have jurisdiction over the employment agreement?
 - State laws vary as does judicial temperament and public policy, including the scope of permitted restrictive covenants, whether the court will blue pencil if overbroad
 - Where multiple states have significant contact with the employment relationship, pay attention to the most restrictive states' law and choice of law rules





CNC/NSA: a National Perspective

> Choice of Law and Forum Selection

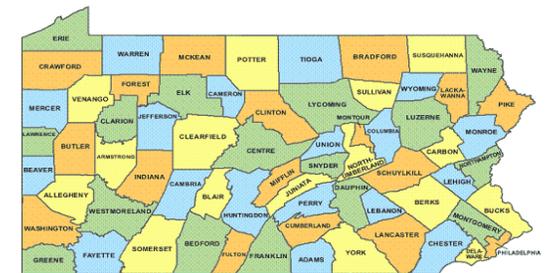
- Choice of law and forum selection provisions may work to secure the most favorable place to enforce restrictive covenants
- Is there a *nexus* with a state that is friendly to enforcement of restrictive covenants?
- Contractual forum selection clauses should be enforced in all but the most exceptional cases.
Atlantic Marine Const. Co., Inc. v. U.S. Dist. Court for the W. Dist. of Texas, 134 S. Ct. 568, 571 U.S. ____ ([Dec. 3,] 2013)

CNC/NSA: a National Perspective

- WA enforced employer’s WA forum selection and choice of law clauses against CA sales associates who left for a CA competitor. CA court dismissed the employees’ parallel lawsuit based on WA forum selection clause. *Meras Engineering, Inc. v CH20, Inc.*, 2013 WL 146341 (N.D. Cal., Jan. 14, 2013)



- Enforcing a PA forum selection clause, a CA court held: “[T]here is no indication that the ...[PA]... federal court hearing Synthes’ ...[PA] [l]itigation will not or cannot entertain Plaintiff’s choice of law arguments or that it cannot apply ...[CA]...law if it is determined that ...[CA]... law governs.” *Trosper v. Synthes USA Sales, LLC*, 2013 U.S. Dist. LEXIS 83626, at *15 (C.D. Cal., June 12, 2013)





CNC/NSA: a National Perspective

- > Consider state-specific agreements with carefully tailored CNC/NSA
- > Examples of states' treatment of post-term restrictive covenants
- > California:
 - Non-compete against non-owner employee is not enforceable
 - Non-solicitation of customers may be enforceable, but, as noted earlier, the courts are in flux on the viability of the trade secret exception

CNC/NSA: a National Perspective

Illinois:

- > Non-compete and non-solicit may be enforceable if necessary to protect legitimate business interests (based upon totality of facts and circumstances) such as, acquisition of confidential information through employment, “near permanence” of customer relations (i.e., customer would continue with company but for actions of the exiting employee)
- > Reasonable time (6, possibly 24 months) and geographic scope needed to protect the interest
- > Adequate consideration required, regardless of when agreement executed, such as two years or more of employment, access to TS/CI, and special training
- > Court will likely blue pencil



CNC/NSA: a National Perspective

New York:

- > Non-compete and non-solicit can be enforced if the employer has a protectable interest, such as employee access to CI/TS, loss of employer goodwill, and loss of employee's special or unique skills to a competitor
- > Must be reasonable in time (6, possibly 12+, months) and geographic scope
- > Initial employment, employee receipt of intangibles (e.g., knowledge, skills, professional status), occasionally continued employment, and acceptance of post-term payments ("Employee Choice Doctrine"), are adequate consideration
- > Court likely to blue pencil



CNC/NSA: a National Perspective

North Carolina:



- > Non-compete, and non-solicit, restrictions are likely enforceable as long as reasonable in time and scope
- > Most courts will enforce a 2 year restriction
- > Non-solicit usually limited to customers the employee worked with or learned of as a result of the employment
- > Initial employment is adequate consideration, continued employment alone is not (though nominal consideration is enough)
- > Likely the court will blue pencil, but only by striking out unenforceable provisions



CNC/NSA: a National Perspective

- > How Broadly To Write the Agreement?
 - “You can’t always get what you want...”
 - Restrictive covenants must be reasonably necessary to protect a legitimate employer interest, which in most states includes access/exposure to trade secrets/confidential information
 - What restrictive covenant duration is really needed?
 - Narrow scope is more likely to be enforced
 - Narrow definition of trade secrets/CI is better

CNC/NSA: a National Perspective

> Drafting and In-Term Solutions

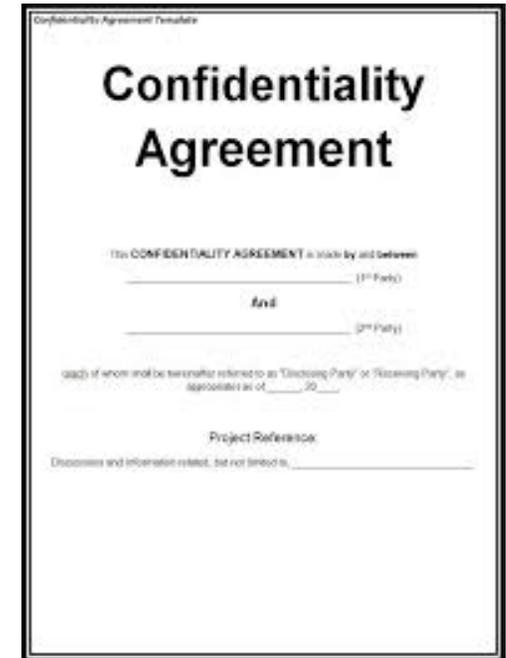
- Employee to give notice before effective resignation, during which time employee still owes a fiduciary duty/duty of loyalty that may accomplish employer protection needs



- Employee debriefing, disclosure and cooperation obligations during notice period
- Return of company property and how to address communications (e.g., email and social media)

CNC/NSA: A National Perspective

- Confidentiality obligations for all employees
- Include restrictive covenants during period of employment
- If there are any post-term CNC/NSA, include extension of the restricted period by the amount of time the employee is in breach
- Employee to provide a copy of the agreement to his new employer and another giving the old employer the express authority to do so
- Employee, upon request, to provide written assurances or certification of compliance



CNC/NSA: A National Perspective

> Legal and administrative planning for restrictive covenants

- Baseline – trade secrets, confidentiality and invention assignment agreement
- One agreement designed to get the most protection that each state allows?
- One agreement designed to leverage law and venue in one state? (e.g., corporate HQ)
- Some executive specific agreements, some state specific agreements, and one form for everywhere else?





Thank you!

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