



Seyfarth Shaw LLP

Trade Secret Protection Best Practices

Hiring Competitors' Employees and
Protecting the Company When
Competitors Hire Yours

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What We Will Cover

- Best/Worst Practices
 - Onboarding/Exiting Employees
 - Forensic tools
- Brief Update on California Law
- Restrictive Covenants/High Level Strategies
- Social Media/ Bring Your Own Device (BYOD) Developments
- Tools to Protect Information and Assets





Symantec/Ponemon 2013 study

- 3317 individuals in six countries: United States, United Kingdom, Brazil, France, China, and Korea.
- Over half e-mail business documents from their workplace to their personal e-mail accounts (41 percent say they do it at least once a week);
- 41 percent download intellectual property to their personally owned smart phones or tablets; and
- 37 percent use file-sharing applications (e.g., Dropbox™ or Google Docs™) without company permission.





Trade Secrets: Who Is Stealing Data?

- Most common misappropriator = rogue employees and business partners
 - 90% trade secret misappropriation
 - Vast majority by electronic means
- Why employees and business partners?
 - Access to and familiarity with computer systems and information
- Technology makes it easy
 - Many tools for exfiltration of data
 - Technology allows for remote and cloud computing





Best and Worst Practices: Onboarding and Departing Employees





“Worst Practices” Video Clip

- Pay attention to the conduct of the:
 - Interviewer
 - Applicant
 - Current Employer

Note, the video involves employers/employees in California, where non-compete agreements are generally unenforceable. A good litmus test, however, for any employers' trade secret protections.





Worst Practices

- Interview



- The Interviewer
 - Fails to steer the interview away from customer specifics and potential trade secrets
 - Accepts bad mouthing of current employer
 - Encourages the applicant to start in a mere 4 days
 - Tells the applicant to “give a shout out to his customers”
 - Does not press the applicant for copies of his previous agreements
 - Encourages the applicant to solicit fellow employees
 - Effectively provides offer before vetting agreements





Worst Practices

– Interview

- The Applicant

- Offers to announce his move to customers and co-workers before leaving his old job
- Shares specific confidential information about customers
- Bad mouths current employer
- Plans to leave his old job with little to no notice
- Announces that he will bring his old employer's materials along with him in order to "hit the ground running"
- Hopes to bring the "OC franchisor team" with him to his new job





Worst Practices –Employee's Last Day

- Employee's Actions on Last Day
 - Takes company hard copy documents
 - Emails electronic documents to personal account
 - Takes company data on thumb drives
 - Maintains company information in cloud storage
 - Deletes files from company computer
 - Provides little to no notice





Worst Practices - Resignation/Exit

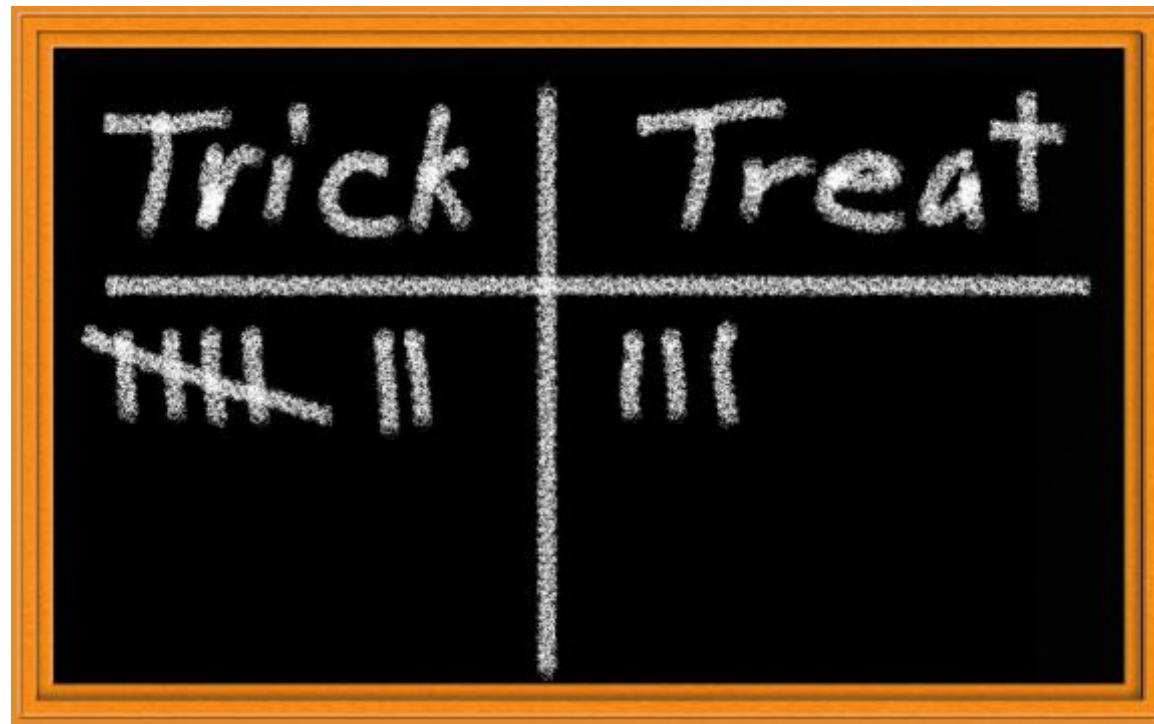
- The Applicant's former employer
 - Failed to create "culture of confidentiality"
 - Fails to conduct an exit interview
 - Allows employee to clean out office without HR present and take material without reviewing content
 - Authorizes wiping of employee's computer which will destroy evidence that the employee forwarded files and customer contacts to his personal e-mail account
 - Generally appears unconcerned about the abrupt and unexpected departure of an employee who had access to confidential and trade secret information





Best Practices

- Interviewing a Competitor's Employees



Best Practices

- Interviewing a Competitor's Employees

- Discuss general skills and talents, not former employer's customers or trade secrets.
- Control interview and put employee at ease.
- Make clear that the employee should not, under any circumstances, use or bring any of his former employer's information or solicit any former co-workers.
- Focus on making the transition as smooth as possible for the former employer.
- Consider reaching out to the employee's employer.
- Check if the employee has any ***existing agreements*** with former employers before making an offer.





Best Practices

- Assessing Restrictive Covenants

Silguero v. Creteguard, 187 Cal. App. 4th 60 (2010)

- Direct use of a non-compete agreement invalid under Business & Professions Code section 16600 may give rise to liability
- So may **acquiescence to another's use** of such an invalid agreement
- The Court of Appeal found that the employer's **ratification** of the non-compete agreement, despite believing that "noncompete clauses [were] not legally enforceable ... in California," was "**tantamount to a no-hire agreement**" by which the employer agreed not to hire competitor's employees
- The Court further reasoned that such an agreement "unfairly limit[s] the mobility of an employee" because FST "should not be 'allowed to accomplish by indirection that which it cannot accomplish directly'"
- Thus, a new employer may have to choose between: (1) defending against litigation by a former employer; and (2) defending against litigation by the new employee



Best Practices

- Assessing Restrictive Covenants

- Assess covenants before extending offer.
- Are the restrictive covenants enforceable?
- Even if enforceable, can the employee be placed in a position in which he/she will not violate the covenants?
- If so, does the employee still have value to the company?
- Does this particular competitor regularly enforce its restrictive covenants?
- If the employee is worth the effort, consider a declaratory relief action.
- Even if the covenant is subject to challenge, always remember to ensure that the employee returns its former employer's property and does not misuse trade secrets
- Be prepared to communicate with former employer about the employee's job responsibilities



Best Practices

- Hiring A Competitor's Employees

- Create a ***culture*** where employees understand confidentiality and what information that the company considers confidential
- Conduct new hire training on the importance of protecting company trade secrets and confidential information
- Emphasize the importance of non-disclosure and trade secret protection agreements
- Put in place continuing training – once is not enough! Have routine e-mail reminders and training
- Beware of inevitable disclosure (for jurisdictions that apply the doctrine)
- For sensitive hires, routinely follow-up with employee to ensure that he/she is honoring restrictive covenants.



Best Practices

- Key Agreements For New Employees

1. Non-disclosure and trade secret protection agreements
2. Non-solicitation of employee agreements
3. Agreements relating to former employer's trade secrets (demonstrates good faith)
4. Computer use and access agreements
5. Social media ownership and policies
6. Invention assignment agreements





Best Practices

- Agreements re Former Employers' Trade Secrets

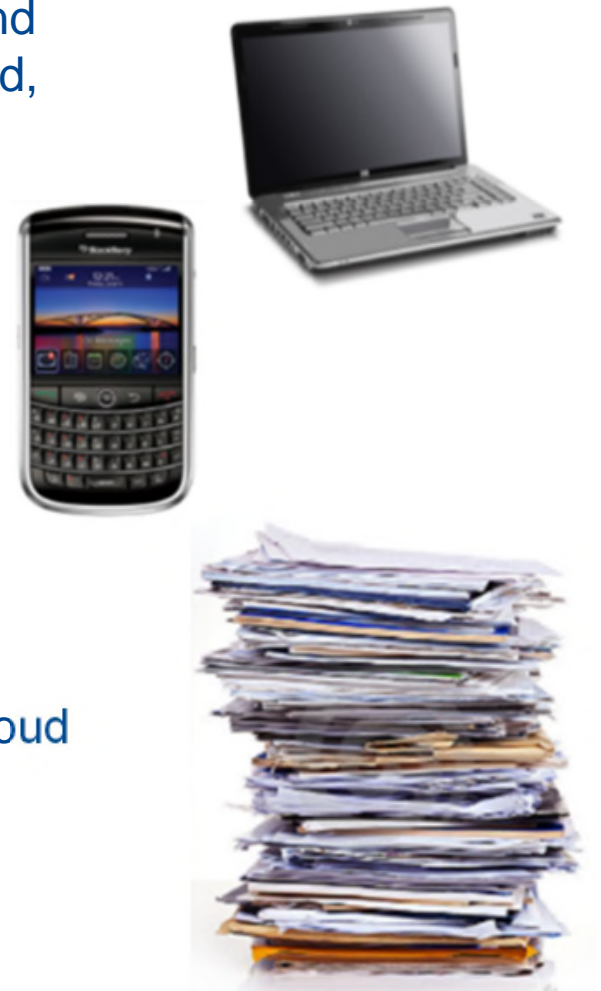
- New employee should represent in writing that employee does not have any trade secrets or confidential information of the previous employer
- New employee should represent in writing that employee does not have any of previous employer's property
- New employee should represent in writing that employee will abide by all lawful agreements with previous employer
- Agreement should provide that the Company may terminate employment and seek damages for unlawful breaches and failure to disclose prior agreements. Also consider indemnification language



Best Practices

- Exit Interviews

- Prepare for the interview, identify the trade secret and confidential information the employee accessed/used, consider having in-house counsel or HR and employee's manager present
- Question the departing employee in detail
- Ask employee why he is leaving
- Ask employee what his new position will be
- Check employee's computer activities and work activities in advance of the meeting
- Ensure that all Company property, hardware, and devices have been returned, including e-mail and cloud data, and social media accounts; consider using an inventory list
- Ensure that arrangements are made to have all company data removed from any personal devices



Best Practices - Exit Interviews



- Disable access to company computer networks
- Make sure you obtain user names and passwords for all company social media accounts
- Inform the employee of his continuing obligations under agreements with the Company
- Consider letter to new employer and employee with reminder of continuing obligations
- Consider having departing employee's emails preserved and electronic devices forensically imaged
- Consider using an exit interview certification



The Use of Digital Forensics in Trade Secret Investigations





The Use of Digital Forensics

- Proper Chain of Custody
- Dates and times of activities
- Removable device history
- File transfers (e.g. Ink files, CD burning, etc)
- Cloud Computing
- Network Access
- Other methods (skype, FTP, social media)
- Personal e-mail usage
- Data destruction (e.g., data wiping)
- Audit IT systems (anything missing?)





Digital Forensics Are Often Critical to Catching Bad Actors

- DO NOT PLAY DETECTIVE
- Identify and “quarantine” all potentially relevant data sources
 - Laptop/desktop
 - Smart phone/PDA/iPad/tablet
 - Email sources
 - Portable media
 - Any other electronic media
 - Third Party Data Storage





California Law Update

- “Reasonable Efforts” to Maintain Secrecy
- Threatened Misappropriation vs. Inevitable Disclosure
- Hot Topics: LinkedIn Contacts, Ideas, and Preemption
- The Computer Fraud and Abuse Act in the Ninth Circuit



Non-Competition Agreements/Restrictive Covenants: The Increasing Role of the “Trade Secrets Exception” and Forum Selection Clauses





Non-Competition Agreements/ Restrictive Covenants – California

- California has a strong public policy against non-competition agreements and other covenants that impair employee mobility and competition.
- Such agreements are presumptively void.
- Business & Professions Code § 16600 et seq.
 - Section 16600 provides:
 - “Except as provided in this chapter, every contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void.”





The So-Called “Trade Secret Exception”

- Historically California courts have not addressed whether there is a trade secret exception to allow the enforcement of certain non-competes.
- *The Retirement Group v. Galante*, 176 Cal. App. 4th 1226 (2009) (“Court may enjoin tortious conduct...banning the former employee from using trade secret information” not because the conduct falls within a statutory exception to 16600, but “because it is wrongful independent of any contractual undertaking.”).
- *Dowell v. Biosense Webster, Inc.*, 179 Cal. App. 4th 564, 577 (2009) (“[a]lthough we doubt the continued viability of the common law trade secret exception to covenants not to compete, we need not resolve the issue here.”).





Choice of Law/Forum Selection Clauses

- Some non-compete agreements contain a choice of law provision calling for the application of the law of a state other than California and/or forum selection clauses.
- Where applying the other state's law would result in the enforcement of a non-compete clause in contravention of California public policy, California courts have refused to apply the choice of law clause.
 - *The Application Group, Inc. v. Hunter Group, Inc.*, 61 Cal. App. 4th 881 (1998)
 - *Arkley v. Aon Risk Services Co. Inc.*, 2012 WL 2674980 at *3 (C.D. Cal., 2012)
 - *Ruiz v. Affinity Logistics Corp.*, 667 F. 3d 1318 (9th Cir. 2012) (refusing to apply Georgia choice of law provision in connection with non-competition agreement).



Choice of Law/Forum Selection Clauses (Cont.)

- Federal district courts in California, however, have increasingly elected to enforce forum selection clauses even though it would require a California worker to travel to another state and be subject to enforcement of the non-complete agreement. The *Atlantic Marine* decision has probably accelerated this trend.



Continued Significance of Choice of Law and Forum Selection Clauses



- *Hegwer v. American Hearing and Associates*, 2012 WL 629145 (N.D. Cal., Feb. 27, 2012) (granting motion to dismiss California action based upon Pennsylvania forum selection law clause)
- *Hartstein v. Rembrandt IP Solutions*, 2012 WL 3075084 (N.D. Cal., July 30, 2012) (enforcing Pennsylvania forum selection clause, disregarding ultimate affect that Pennsylvania court will enforce improper non-compete clause against California citizen)
- *Meyer v. Howmedica Osteonics Corp.*, No. 14CV2496 AJB NLS, 2015 WL 728631, at *12 (S.D. Cal. Feb. 19, 2015) (“In sum, the Court does not find that the forum selection clause in the Employment Agreement itself contravenes California public policy [under 16600].”)



Forum Selection Workaround to § 16600?

- *Atlantic Marine Construction Co., Inc. v. U.S. Dist. Ct. for Western Dist. of Texas*, 134 S.Ct. 568 (December 2013)
 - In the absence of the forum selection clause being procured by improper means (e.g., duress, coercion etc.), the forum selection clause should be presumed valid
 - The transferee court's law, not the transferor court's law, should apply
 - The transferor court could still theoretically chose to apply California substantive law, but as a practical matter this may be unlikely
 - Often, this analysis applies in the context of transfer motions where federal common law doctrine such as the "first to file" rule is also at play and may affect the courts' analyses



Ninth Circuit – Section 16600 Should Be Read Literally

- *Golden v. California Emergency Physicians Medical Group* (9th Cir. April 8, 2015)
 - A “no re-hire” provision in a settlement agreement could constitute an unlawful restraint of trade under California law.
 - 16600 is not limited to employment covenants not to compete.
 - “No-hire” agreements have been generally unenforceable under California law, but traditionally refer to third parties, not the parties to the contract.
 - Court suggests a person cannot agree under 16600 that he will not work again for his former employer (to be distinguished from its competitor)
 - Is “substantial” the same as “narrow?”
 - Potential ramifications?
 - Reach of 16600 is an issue that will need to be addressed by the California Supreme Court?



Social Media—A Moving Target





Social Media Issues





Social Media Issues

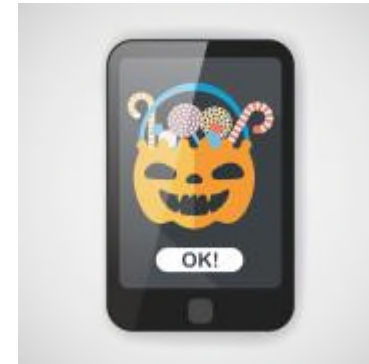
- US courts continue to grapple with whether there can be trade secret protection for such information.
- For example, a federal district court in California issued a well-publicized decision in *Cellular Accessories For Less, Inc. v. Trinitas LLC*, No. CV 12–06736 D, 2014 WL 4627090 (C.D. Cal. Sept. 16, 2014), in which it denied a motion for summary judgment on a trade secrets misappropriation claim against a former employee who retained the contacts in a LinkedIn account that he created while employed by the plaintiff. That case illustrates that LinkedIn and other social media contacts can be protectable as trade secrets if the methods used to compile the contact information are “sophisticated,” “difficult,” or “particularly time consuming,” though the purported trade secret holder will also have to establish that the contacts were not made public in order to be entitled to trade secret protection.





Bring Your Own Device Issues

- Litigation
- Access to company data
- Privacy
- Chain of Custody
- Potential for Spoliation
- Windows-based Operating Systems vs. iOS considerations
- Reimbursement implications and *Cochran v. Schwan's Home Service, Inc.*
- Employers reactions:
 - Some are paying an allowance that is reasonable, and then have a mechanism for employees to claim additional reimbursement if the allowance is not sufficient to cover their necessary business expense in using it.
 - Others pay a percentage of the entire bill every month through expense reimbursement procedures.





Best Practices: Protecting Your Information (ACE)

AUDIT



CREATE CULTURE



ENFORCE





Create a Culture of Confidentiality

- Ensure employees understand what company considers confidential
- Training modules with examples of “dos” and “don’ts”
- **MARK THINGS CONFIDENTIAL!!!**
- **Provide access on need to know basis**
- Make security protocol familiar and uniform



Enforce: Policies Without Implementation = 0

- Legal
 - Uniform agreements
 - Consistent language in policies (including handbook, IT, social media, and 3rd party)
 - Dialogue with your “client” to assess climate and culture
- Human Resources
 - Maintain signed agreements in employee files
 - Checklist for incoming and departing employees
 - Familiarize with agreements for timing of return
- Security/IT
 - Programs to review/preserve media
 - Tracking software (server access; email alerts)



Key Takeaways and Best Practices



Training and Tools

- Leveraging technology to help provide more efficient and effective training and tools that help keep your organization on track.



The background of the slide is a dark brown color. It features a horizontal film strip with white sprocket holes running across the middle. Behind the film strip, there are several overlapping, stylized film reels in shades of brown and gold. The reels have a circular shape with a central hub and several holes around the perimeter. The overall aesthetic is that of a classic film or documentary.

A Docu-Drama

The Confidence Game

Trade Secrets

STARRING

Nancy Non-Compete



Tommy Trade Secrets




Carl Confidentiality



SPECIAL APPEARANCE BY

**Our Policies and
Non-Compete
Agreements**





Follow The Heart-Stopping Journey of Our Documents...

**As their Impacts are felt
from Recruiting & Interviewing
to Post-Offer/Employment
to End of Employment
to the Courtroom**

Each path brings
new adventures
and new
questions, such
as:

1. What is the
importance of a non-
compete?

2. How do we deal with
confidentiality
agreements in the
hiring process?

3. Why is
understanding the
value of trade secrets
so important?

4. How do we deal with
employees subject to
non-competes?


5. How do we best
protect our trade
secrets?



The Confidence Game... A Docu-Drama

The Critics are Raving...

- “It’s fully interactive”
- “Your policy is integrated”
- “Customized at no cost”
- “Delivery approach is outstanding”
(federal agency monitors)



The Confidence Game... A Docu-Drama

Can be experienced:

- Live
- Via Video-Conference
- Via Interactive Webinar
- ****In Planning Stages**** eLearning