

For Your Eyes Only – Ethical Issues and Best Practices When Non-Compete Breaches and Trade Secret Thefts Occur

2017 Labor & Employment Law Conference

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ETHICAL ISSUES AND BEST PRACTICES: AGENDA

- “Self-Help”
 - Overzealous investigations by employers
 - Misappropriation by departing employees
- Evolving issues: Social media and the internet
- Houston, we have a problem . . . with our documents
 - Enforcing the unenforceable (restrictive covenants)
 - Right or wrong trade secret misappropriation actions
- What do we do next?
 - Attorney letters
 - Seizures, injunctions, declaratory actions . . . oh my!

BEST PRACTICES TO PREVENT NON-COMPETE BREACHES AND TRADE SECRET THEFT BY DEPARTING EMPLOYEES

- Offer letters/onboarding
- Policies
- NDAs
- Technology
- Exit interviews



BEST PRACTICES TO PREVENT NON-COMPETE BREACHES AND TRADE SECRET THEFT

- Internal Resources
 - In-house legal counsel
 - IT
 - Risk Management
 - Business Leaders
- Insurance
 - What should it cover?
 - Loopholes
 - Notification
- External Resources
 - Outside legal counsel
 - Computer forensic consultant
- Third-party vendors
 - Cloud storage provider
 - Monitoring services

BEST PRACTICES TO PREVENT NON-COMPETE BREACHES AND TRADE SECRET THEFT

- Computer forensics/E-discovery/Spoliation
 - When does the duty to preserve relevant evidence arise?
 - Preserving texts, voice mail, snap-chat, social media
 - Internal IT vs. outside computer forensic consultant?
- IT involvement
 - When to cut off computer access
 - Signs that employee is misusing access
 - Whether to remotely wipe personal devices

SELF-HELP

- Overzealous investigations by former employers
 - Employers accessing ex-employees' personal emails
 - Stored Communications Act (SCA) claim upheld where company used former employee's company-provided phone to access her personal Gmail account 40 times. *Levin v. ImpactOffice LLC* (D. Md. 2017)
 - Employers' use of co-workers passwords to access private websites
 - SCA liability affirmed where restaurant managers with co-worker passwords to access employee's private MySpace chat group. *Pietrylo v. Hillstone Rest.* (D. N.J. 2009)

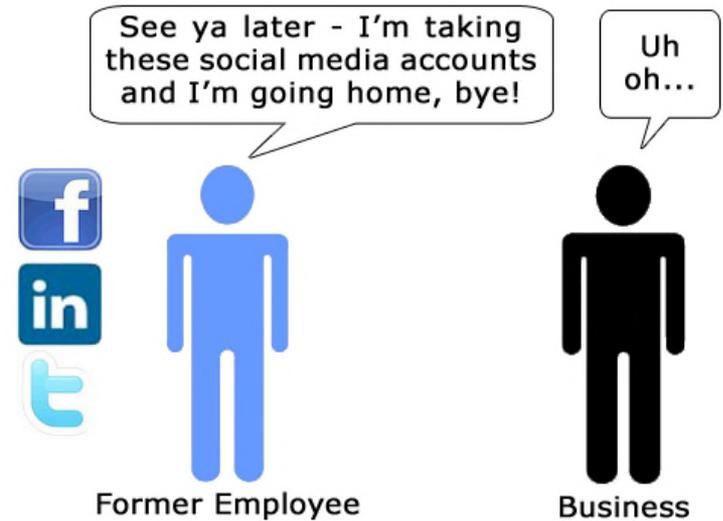


SELF-HELP

- When employees misappropriate and disclose confidential information to support claims
 - DTSA immunity from trade secret liability for disclosure
 - DTSA does not bar liability for misappropriation
 - Employer must provide DTSA Immunity Notice to recover attorney's fees and exemplary damages under the DTSA
 - Misappropriation of confidential information as “Protected Activity”?
 - “Public Policy” exception to liability for disclosure violations
 - State anti-SLAPP defense to trade secret misappropriation claims. *Elite Auto Body LLC v. Autocraft Bodyworks* (Tex. App. 2017)

EVOLVING ISSUES: SOCIAL MEDIA AND THE INTERNET

- Social media policies
 - Concerted activity
 - Use of company email
- Ownership of social media accounts
- LinkedIn solicitation v. status updates



EVOLVING ISSUES: SOCIAL MEDIA AND THE INTERNET

- National/global non-competes
- Internet company's one-year non-compete was too long because information became stale. *EarthWeb v. Schlack* (S.D.N.Y. 1999)
- Electronic signatures and online documents
 - *ADP, Inc. v. Lynch* (3d Cir. 2017) (enforcing restrictive covenants in online incentive stock awards where employee accepted electronically five times by clicking on a webpage checkbox stating “I have read all the documents below”)
 - But in *Dugan v. Best Buy* (N.J. App. 2017) (where employee only had to click “I acknowledge” rather than “I agree” on online employment agreement, enforcement denied)

HOUSTON, WE HAVE A PROBLEM . . . WITH OUR DOCUMENTS

Documents

- Employment agreements
- Stock option agreements
- Long-term incentive plans
- Severance agreements

State Law Restrictions on Restrictive Covenants

- “Low wage Earners”
 - Illinois Freedom to Work Act

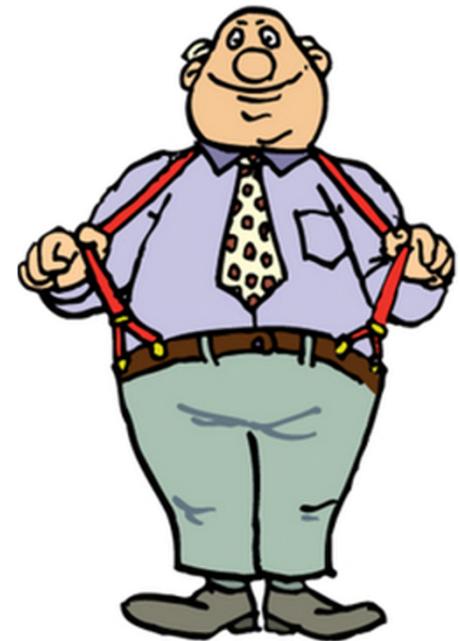
Employees

- Executives
- Sales
- R & D



HOUSTON, WE HAVE A PROBLEM . . . WITH OUR DOCUMENTS

- “Special” deals involving non-competes
 - “Evergreen” or automatic renewal employment contracts
 - “Discretion” clauses
- The “consideration” conundrum in Illinois
 - Continued employment
 - Changes in duties
- Consultant non-competes



HOUSTON, WE HAVE A PROBLEM . . . WITH OUR DOCUMENTS

- Choice of law and forum selection claims
 - Often outcome-determinative
 - Presumptively valid under *Atlantic Marine* (U.S. 2013)
 - Public policy override
 - Cal. Labor Code Sec. 925 limits Choice of Law and Forum Selection clauses for employees who “primarily work or reside in California”



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WHAT DO WE DO NEXT?

- Attorney letters
 - The perils of cease and desist letters
 - Interference with contract claim upheld where new employer fired plaintiff because former employer’s cease and desist letter threatened litigation over unenforceable non-compete. *Pryor v. H.B. Fuller Co.* (D. Minn. 1997)
 - Ultimatum letters and “anticipatory” declaratory judgment actions
 - DTSA case where ex-employees and new employer filed “anticipatory” action in Nebraska seeking declaration that they had not misappropriated trade secrets five days after they received cease and desist letter from former employer
 - First-to-File Rule denied. Former employer’s later-filed trade secret theft allowed to proceed. *Consolidated Infrastructure Group v. USIC LLC* (D. Neb. 2017)

WHAT DO WE DO NEXT?

- Risks in trying to enforce unenforceable non-competes and trade secrets?
 - Invalidation of non-compete may not preclude attorney's fee claim in same agreement. *Osler Institute v. Forde* (7th Cir. 2004)
 - Invalidation of non-compete in one state may invalidate non-complete in **all** states. *Palmer & Cay, Inc. v. Marsh & McLennan Cos.* (11th Cir. 2005)
 - Texas employee awarded \$750,000 in attorneys' fees for overbroad non-compete
 - DTSA: Attorneys' fees recoverable for "bad faith" trade secret misappropriation claims



WHAT DO WE DO NEXT?

- Seizures, injunctions, declaratory judgment actions
 - Seizures: The federal Defend Trade Secrets Act (DTSA) allows ex-parte seizures of stolen trade secrets
 - But only in “extraordinary circumstances”
 - Seizures only granted when ex-employees ignored prior orders
 - DTSA injunctions and the inevitable disclosure doctrine
 - The DTSA injunctions that bar or restrict employment cannot be based merely on “information the person knows”
 - Evidence of threatened misappropriation required
 - Using NDAs instead of non-competes?
 - Overbroad NDAs that are tantamount to non-competes are unenforceable. *Service Ctrs. v. Minogue* (Ill. App. 1987)

QUESTIONS?



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THANK YOU

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