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Non-Competes
and Trade Secret Protections

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EXPAND YOUR EXPECTATIONS℠

Identify Categories of Potential Trade Secrets

- Technical Information
- Production and Processing Information
- Vendor and Supplier Information
- Quality Control Information
- Sales and Marketing Information
- Financial Information
- Internal Administrative Information

Document Trade Secrets

- Identify Storage Media

- Identify Storage Systems and Devices

- Identify Storage Locations

Restrict Access to Confidential Information

- Establish specific security procedures
- Review and update company policies on a regular basis
- Conduct regular audits of policies and procedures used to protect confidential information. Update and amend policies as needed.

Restrict Access to Confidential Information (con't)

- Develop procedures for correcting inadvertent disclosure.
- Establish a policy of pursuing theft of trade secrets and other confidential information.
- Develop an appropriate document-retention policy.

Protect Information Based on the Way it's Classified

- Location
- Segregate information
- Restrict access to the information
- Assign a specific employee the responsibility for managing the confidential information
- Determine which type of storage system or device is appropriate for the information.
- Documents

Walk the Talk

- Written agreements and policies are very useful

- But sometimes your *actions* are more important than your words

- Consider the following strategies as a means of increasing your chances of protecting your company's intangible assets

Non-Disclosure Strategies

- Restrict access to sensitive information to employees on a "need to know" basis
- Train and communicate with employees who have a "need to know"
- Restrict employees from having remote access to sensitive information

Promote a Culture of Confidentiality

- Regularly discuss confidentiality obligations in employee meetings
- Review confidentiality obligations during employee performance reviews
- Avoid disclosing confidential information through electronic communications, website postings, marketing materials, etc.
- Take advantage of "teaching moments" when mistakes are made

Damage Control Strategies for Employee Resignations

- An employee tenders her resignation
- You're concerned about protecting your company's trade secrets
- What do you do?

First Steps

- Identify whether the departing employee had access to sensitive information
- Inventory all sensitive documents and things to which the employee had access

Next Steps

- Inventory all electronic data to which the employee had access, including software source code.
  - Note "last edit" dates and "edited by" information
- Access the employee's e-mail account and look for suspicious activity
- If you suspect theft of data, immediately order a forensic imaging of the employee's hard drive

Conduct an Exit Interview

- Include an HR representative and the employee's manager
- Present the employee copies of her non-competes, restrictive covenants, policy acknowledgments and/or applicable policies
- Ask the employee to confirm that she intends to honor her agreements and the company's polices
- Communicate the company's expectations
- Ask about the employee's plans for future employment and press for details

The Cease and Desist Letter

- Consider sending to the former employee and her new employer (if applicable)
- Include copies of the resigning employee's non-compete, restrictive covenants, policy acknowledgements and applicable policies
- Make your intentions clear
- Threaten litigation and prepare to follow through

Litigation Cons

- It will be expensive
- It can take longer than you had hoped
- It can be time consuming and disruptive for your employees
- The results can be hard to predict and you may walk away disappointed

Litigation Pros

- It "sends a message" to your competitors
- It "sends a message" to your employees
- The value of putting an end to unfair competition or the theft of your trade secrets may be worth the costs
- It may be the only sure way to stop unfair competition or theft of your trade secrets

Hiring Strategies to Reduce Your Risk of Being Sued by a Competitor

Pre-Offer Steps

- Instruct the candidate to remain loyal to their current employer as long as they are still employed by them
- Advise the candidate that under no circumstances should they share their current/former employer's business data with your company
- Request a written acknowledgement that the candidate is not bound by any non-compete, non-solicitation or similar agreement

Offer or Post-Offer Steps

- Clarify in writing that the employment offer is contingent on the new employee's pre-employment confirmation of the absence of any non-compete or non-solicitation agreements with their former employer or that they will honor their non-solicit or non-disclosure agreements with their former employer
- Develop a strategy for monitoring the new employee's compliance with these commitments
- On the new employee reporting to work, consider confirmation with former employer.

Restrictive Covenants – Evaluating The Need

- Identify what needs to be protected.
  - Trade secrets/confidential information
  - Customer relationships/face of the company
  - Investments in specialized training

- Identify which employees need restrictive covenants.
  - All employees should not sign restrictive covenants.

Restrictive Covenants – Considering the Scope

- Four Types of Restrictive Covenants
  - Noncompete
  - Nonsolicit (customers and employees)
  - Confidentiality
  - Hybrid – Noncompete/Nonsolicit
- Geographic and Temporal Scope
- Continued Employment is Sufficient Consideration in Most States
- Alabama – Time of Hiring – must be employee

Recognized Protectable Interests

- ## Specialized Training

  - ### General skill and knowledge is not protectable, whether or not it was obtained during employment.

  - ### Courts look at time involved in training and monetary investment by company in training.

Recognized Protectable Interests

- Trade Secrets and Confidential Information
  - Customer information that is "readily ascertainable from public sources is not entitled to protection."
  - Where the identity of potential customers can be determined by examining the yellow pages, customer names do not qualify as protectable business information.
  - Access to all of an employer's clients + knowledge of pricing schedules and terms of contracts = protectable interests.
  - Price lists available to the public and any customer are also not protected.

Recognized Protectable Interests

- Face of the company.
  - Typically in context of sales force or high level executive.
  - Personal contact is not enough, especially if it is the quality of the product sold that drives the customer's decision.
  - Close contact over a long period of time, money spent developing the relationship, and other, similar factors weigh in favor of the relationship being protectable.
  - If, however, use of the former employee's contacts developed while employed would create an unfair advantage for a new employer, these contacts could be protectable.

Time and Territory Limits

- Time & territorial limits generally cannot be more restrictive than is necessary to protect protectable interests.
- Employees generally cannot be excluded from working in regions that they did not work.
- Exceptions for areas reasonably anticipated when agreement was signed.
- As technology evolves, geographic limitations are becoming less common.
- Geography not a consideration when restrictive covenant is limited to employer's customers.

Hardship On The Employee/Harm to Public Interest

- Hardship on employee
  - Only when the hardship to the employee outweighs the benefit to the employer will this element weigh in favor of not enforcing noncompete agreements in Tennessee.
  - Courts can consider voluntary vs. involuntary nature of separation, and with the former, the employee's knowledge of restrictions before resigning can also be considered..
  - Courts often reason that it is not a hardship to require an employee to do what he contracted to do.
- Professional exception
  - Applies mostly to lawyers, doctors, accountants and other professionals.

Litigating Restrictive Covenants

- Each case must stand or fall on its own facts. Restrictive covenant cases are decided on a case-by case basis. There are no bright line rules.

- Variables

  - Judges vary widely in their view of restrictive covenants.

  - What do you suspect your former employee is doing?/What can you actually prove your former employee is doing?

Litigating Restrictive Covenants (con't)

- Cost/Benefit Analysis
  - Does cost and time of litigation outweigh damage former employee is doing to business?
  - Deterrent effect factors into cost/benefit.
  - Discovery is a tool to determine compliance with noncompete.

Litigation Strategy Considerations

- Front loaded. Cases are largely driven by injunctive proceedings, and generally proceed through at least preliminary discovery much faster than other matters.

- Permanent injunctive relief and damages are usually decided by a Judge sitting without a jury, but not always.

- Strategic decision of whether to sue the new employer.

Damages and Injunctive Relief

- Lost profits – must relate directly to activities of former employee.
    - May not know impact at time suit is filed.
  - Recruiting and training costs for replacement employees.
  - Attorneys fees.
  - Injunctive relief may be tolled during period of breach.
  - Injunction enforceable by contempt.

Practical Considerations

- Contractually require employees to notify a subsequent employer of the existence of the agreement.
  - Take away the employee's argument that the restrictive covenant was one of the new hire documents that they signed many years earlier and have not seen it since.
- Train employees on the meaning of the terms of any restrictive covenants.
- Include a choice of law clause – choose carefully.
- Tailor your restrictive covenants to each state where you have employees.
- Include a one-sided attorneys fees provision.

QUESTIONS?