

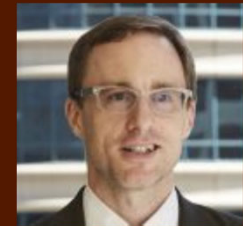
Minnesota CLE

Departing Employees, Restrictive Covenants, and Trade Secrets



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Presentation Roadmap – Part I

Introduction and Protection of Assets

- A. Introduction
- B. Classifying Information
- C. Protection Measures
- D. Drafting Agreements
 - Where to include restrictions
 - What restrictions to include
 - Key contract terms
 - Multi-state employer issues



Presentation Roadmap – Part II

Litigating the Case

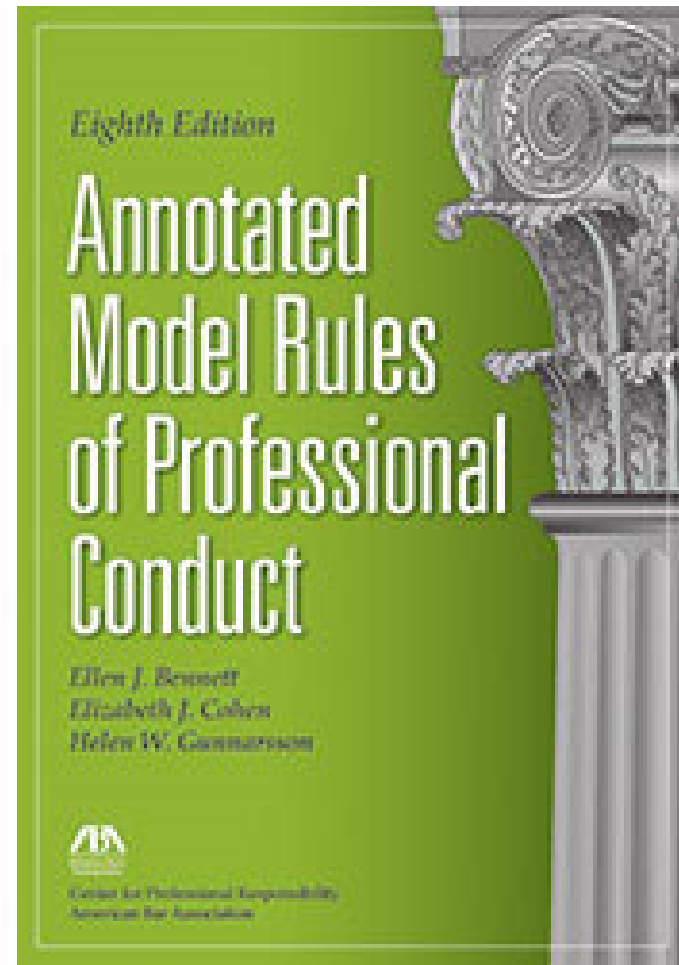


- A. Discovery Issues
- B. Litigation – Plaintiff Side
 - Litigation strategies
 - Potential legal claims
- C. Litigation – Defense Side
 - Litigation strategies
 - Hiring concerns
 - Establishing justification
- D. Resolution and Settlement

Presentation Roadmap – Part III

Conflicts and Ethics Issues

- A. Competence
- B. Diligence
- C. Communication
- D. Conflicts of Interest &
Organization as Client



Part I: Introduction and Protection of Assets

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Introduction to Restrictive Covenants and Trade Secrets

- Modern business challenges
 - Job hopping
 - Technology
 - Millennials' views of ownership
- What is protectible
 - Trade Secrets
 - Assets
 - Relationships
 - Goodwill

Why be concerned?

“Half of employees who left or lost their jobs in the last year kept confidential corporate data, and 40 percent plan to use it in their new jobs.”

What's Yours Is Mine: How Employees are Putting Your Intellectual Property at Risk, Symantec Survey (2013)

Up to \$300 billion in annual losses due to trade secret misappropriation



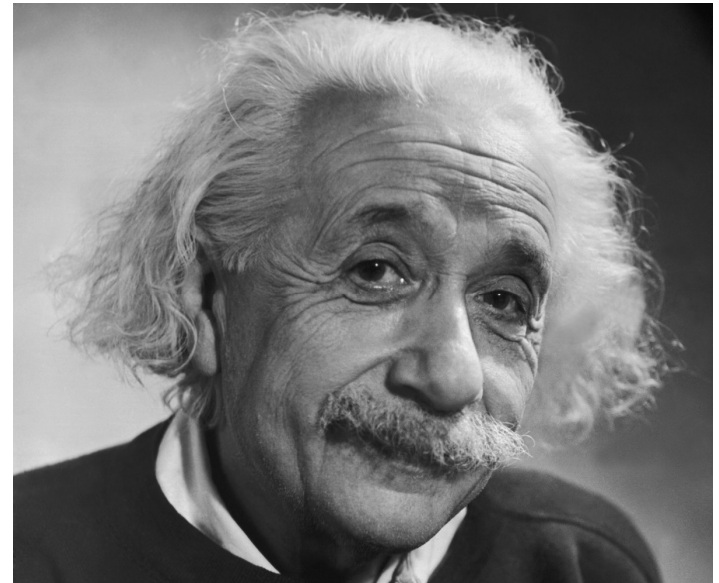
The Challenge – Job Hopping

- At-will employees change employers freely
 - Good or bad economic times
 - They can plan to compete while still working for you (as long as it's not on your time)
- More competition for top talent
 - Increased leverage for potential employees
 - Less willing to sign non-compete agreements



The Challenge – Technology

- “It has become appallingly obvious that our technology has exceeded our humanity.”
~Albert Einstein
- 16 GB thumb drive (\$6.99)
 - 7,700 50-page PowerPoints
 - 123,000 spreadsheets
 - 3,000,000 Word pages



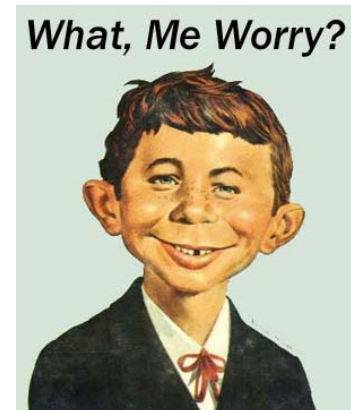
The Challenge – Millennials

Millennials...

- are *educated* and *technological*
 - best-educated generation in U.S. history; “digital natives”
- value *personal responsibility*
 - Less likely to give individuals a “free pass”; extreme distrust of other individuals
- are *skeptical* and *progressive*
 - less connected with traditional institutions; progressive social and technology views (e.g., Uber, AirBnB)
- are *safety-conscious*
 - Raised by helicopter parents; expect corporations to take all possible safety precautions, regardless of costs

The Challenge – The Bad Actors

- The “*justifier*” (I built it, it’s mine)
- The “*thief*” (no one will know if I take some information and contact these customers)
- The “*lawyer-wanna be*” (can’t prevent me from doing this; those agreements I signed are not enforceable)
- The “*blissfully ignorant*” (I didn’t know it was a big deal)



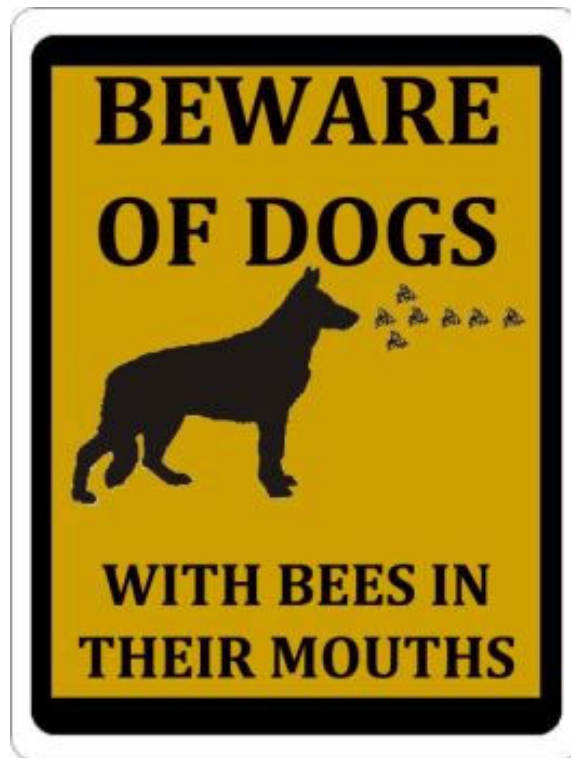
Why do employers use restrictive covenants?

1. Safeguard their assets and protect their own workforces
 - from competitors poaching employees
 - from theft of information and relationships



Why do employers use restrictive covenants?

2. Provide notice of rights and obligations
 - to your own employees
 - To your competition



Why do employers use restrictive covenants?

3. Create right to bring claims against departing workers for breach of contract and against competitors for interfering with your contracts



Why do employers use restrictive covenants?

4. Provide immediate action/remedies when assets are threatened



What Can Employers Protect?

- Trade Secrets (discussed later...)
- Assets
 - Customer lists and information
 - Prices, costs, margins, mark-ups, “metrics”
 - Marketing and strategic plans

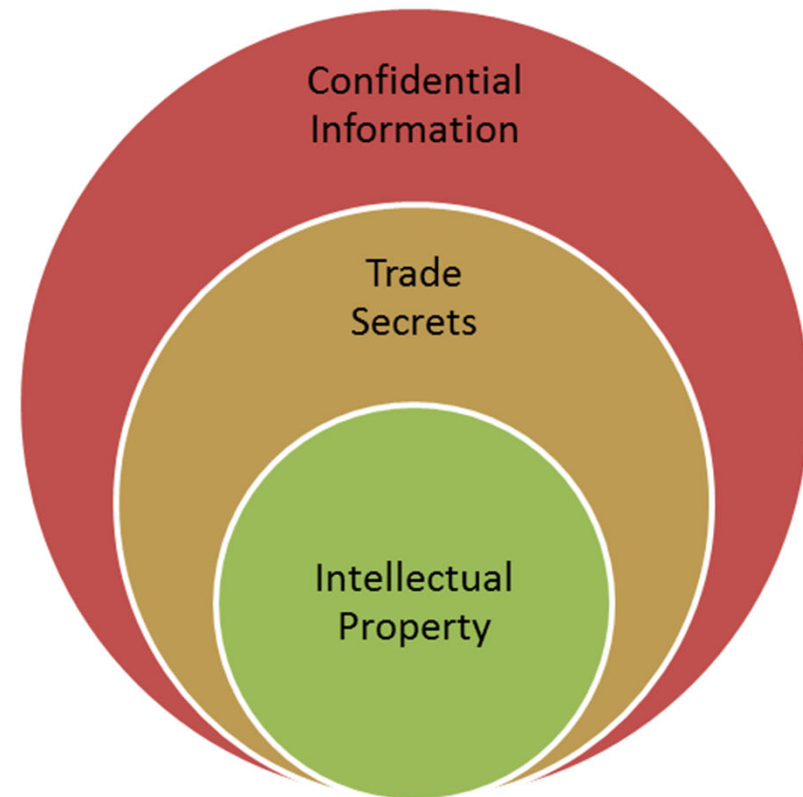
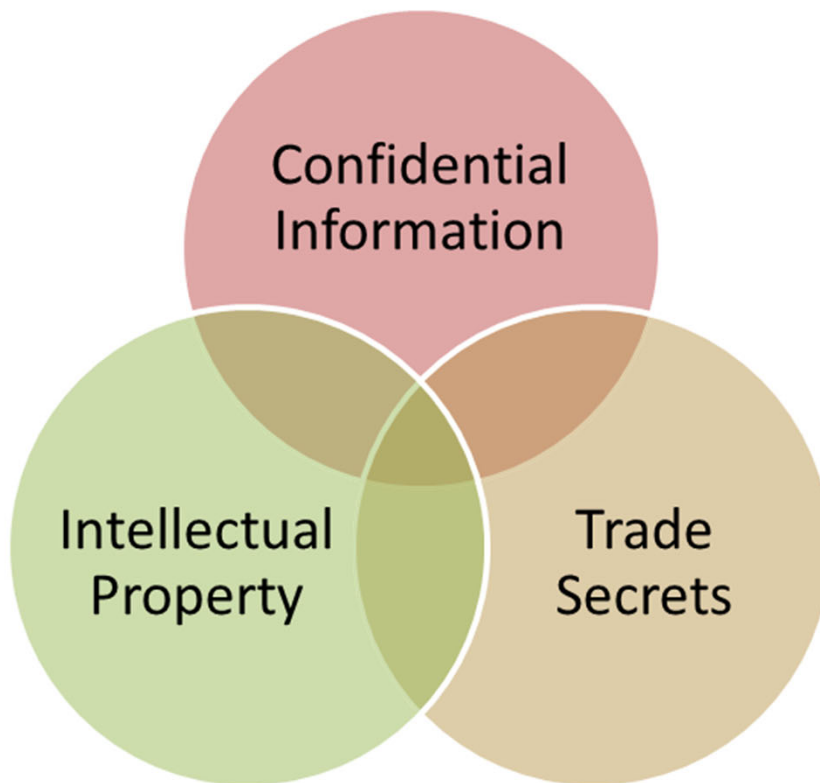


What Can Employers Protect?

- Relationships & Goodwill
 - Customer
 - Client
 - Distributor
 - Vendor
 - Supplier
 - Employee
 - Consultant/contractor



Classifying Information



Classifying Information

(IP vs. Trade Secrets vs. Confidential Info)

- Intellectual Property
 - To acquire protection:
 - Method, machine, or substance that meets statutory requirements, is new, and not an obvious update from something existing
 - Requires IP owner to fully disclose what might otherwise be treated as a trade secret
 - Consider length of time product will be on market
 - Protection provided:
 - Highest-level protection
 - Protect rights regardless what other individuals may develop in the future
 - Recommended in industries with frequent technological breakthroughs

Classifying Information

(IP vs. Trade Secrets vs. Confidential Info)

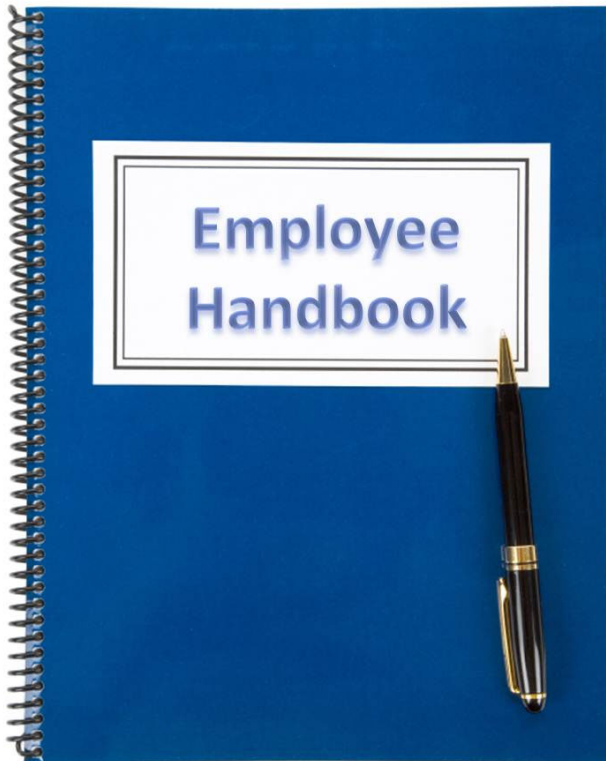
- Trade Secrets
 - To acquire protection:
 - Confidential business information which provides an enterprise a competitive edge and has value because of its secrecy
 - May concern inventions or information that is not viable for a patent
 - Protection provided:
 - Medium-level protection
 - Does not prevent others from acquiring and using trade secrets, it prevents the acquisition by improper means
 - Recommended in industries with constantly changing products and where patents prohibitively expensive

Classifying Information

(IP vs. Trade Secrets vs. Confidential Info)

- Confidential Information
 - To acquire protection:
 - Any information that is not generally known, as defined by contract and policies
 - May concern business information that is not viable for trade secret protection
 - Protection provided:
 - Low-level protection
 - Recommended for general business information, strategies, data, procedures, and other information providing a competitive advantage

Preventative Measures



- Agreements
 - Employment agreements
 - Independent contractor agreements
 - Commission agreements
 - Nondisclosure agreements
 - Offer letters
- Policies
 - Employee handbooks
 - Confidentiality policies
 - Data security policies
 - Return of property policies

Preventative Measures

(What can employers do now, before litigation arises?)

- Employment Practices
 - Information storage rules, external device limits, password protection
 - Marking materials “confidential”
 - Office entry restrictions
 - Third party NDAs
- Departing Employee Protocols
 - Exit interviews
 - Departing employee checklists
 - Departing employee reminders of obligations
 - Securing the return of company property and devices



Drafting Agreements

- What is protected?
- What sorts of agreements to use?
- Who should sign?
- Key contract terms?

Drafting Appropriate Agreements: What is protected?

- Define confidential information for your business and in your industry

“Confidential information” includes, but is not limited to, all documents, records, *[insert super long list]*, and all other information relating to the Company’s business, assets, and/or operations, whether or not expressly designated as confidential.

WAAAAAAAAAAAAAY TOO BROAD

Drafting Appropriate Agreements: What is protected?

- Define confidential information for your business and in your industry
 - Avoid catch-all phrases
 - Consider using geographic scope
 - Consider using temporal limit
 - Include provision that information is confidential only if not otherwise made public

Drafting Appropriate Agreements: What sorts of agreements to use?

- What sorts of agreements to use?
 - Restrictive Covenant Agreement
 - Employment Agreement
 - Commission Agreement
 - Equity Agreement
 - Arbitration Agreement
 - Severance / Separation Agreement

Drafting Appropriate Agreements: Who should sign?

- “Team” approach
 - “We all sign them”
 - Protects all involved
- Specific individual approach
 - Most employers don’t need a non-compete agreement for every employee
 - Executives, consultants and rank-and-file employees privy to trade secrets and confidential/proprietary information, including customer relationships.
 - Enforcement against senior executives v. lower level employees
 - For lower-level positions, non-disclosure agreements may be all that is needed



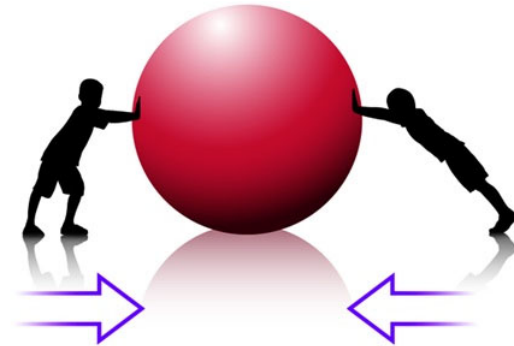
Drafting Appropriate Agreements: Key contract terms?

- Type(s) of restrictions – non-compete, non-solicit, non-disclosure
- Reasonable scope – time, geography, competitor definition
- Choice-of-law and choice-of-forum
- Remedies
- Severability
- Extension during breach / tolling
- Claw-back
- Defend Trade Secret Act notice
- Assignment
- Reformation
- Liquidated damages
- Attorneys' Fees and Costs
- Arbitration issues



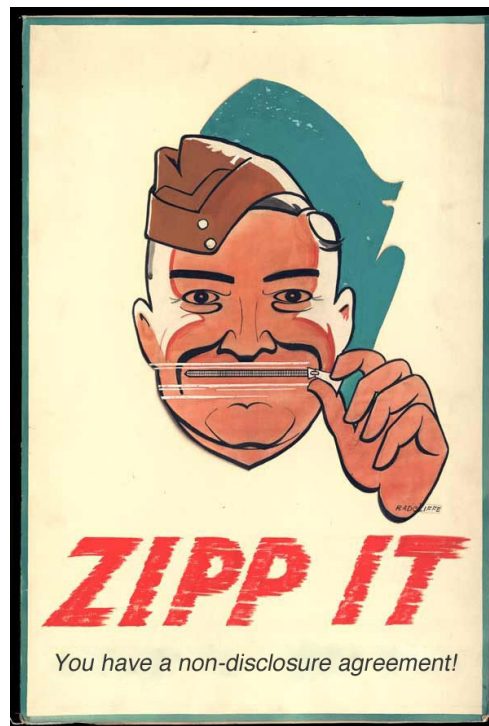
Restrictive Covenants – Types

- Non-Competition
 - Most effective protection
 - Subject to most scrutiny
- Non-Solicitation of Clients
 - Typically easier to enforce than non-compete
 - Geared toward protecting relationships
 - Should be tailored toward the clients or client prospects that the employee
 - worked with,
 - received confidential information about, and/or
 - actually solicited



Restrictive Covenants – Types

- Non-Solicitation of Employees
 - Greater possibility that courts could view as restraints on trade



- Confidentiality / Non-Disclosure
 - Generally more enforceable

Restrictive Covenants – Consideration

- At-will Employment
 - Beginning v. Continued
 - Most states: at-will employment at inception is sufficient
 - And some of these say continuing at-will employment enough
 - e.g., AZ, DE, FL, IN, IA, NJ, NY, OH



Restrictive Covenants – Consideration

- More than At-Will Employment
 - Something more needed: e.g., MN, NC, OR, PA, WA, WI
 - Promotion, term employment/notice, bonus, stock options
 - TN and IL – no, unless employment continued for long period after

Restrictive Covenants – Consideration

- Deferred Compensation Forfeiture Agreement
 - Some employees are offered deferred compensation (either bonuses, or retirement funds) that are part of their typical benefits plan
 - As part of those plans, some employers provide that benefits are forfeited and terminated if the employee begins competing
 - subject to greater court scrutiny

Restrictive Covenants – Reasonable?

- Covenant not to compete enforced only if:
 - The restraint is no greater than is necessary to protect the employer in legitimate business interest
 - The restraint is not unduly harsh and oppressive in curtailing employee's legitimate efforts to earn a living
 - The restraint is reasonable from a public policy standpoint

Restrictive Covenants – Reasonable?

- Duration
 - Remember — the reason courts allow non-competes is to protect a company's goodwill and other business interests
 - 1- to 2-year covenants generally okay, but anything longer appears more punitive than protective
 - Some states have statutory presumptions regarding reasonableness



Restrictive Covenants – Reasonable?

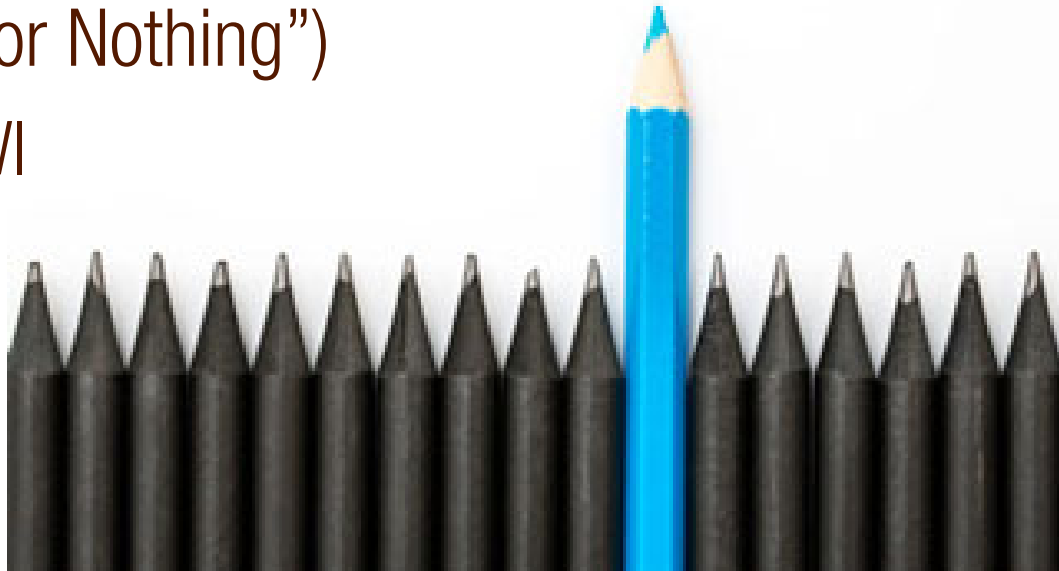
- Geography
 - Limited to customers and/or areas that person is responsible for and/or exposed
 - If salesperson who sells only in certain counties, a nationwide geographic restriction could be overbroad
 - Conversely, if the employee is a nationwide marketing manager, a nationwide geographic restriction may be appropriate

Restrictive Covenants – Reasonable?

- Scope of activity
 - Restrictions generally should be limited to job duties the employee performed for the company
 - Focus on what the employee actually did—prohibiting a person from working, in any capacity, at a competitor may be overbroad
 - But for employees with significant access to trade secrets and confidential information, possibly prohibit from working in any capacity for a competitor

Restrictive Covenants – Reformation?

- Reformation (reform to make reasonable)
 - e.g., IA, IL, MN, OH
- Blue Pencil (strike from existing contract)
 - e.g., AZ, CT, IN, MD, NC
- Red Pencil (“All or Nothing”)
 - e.g., NE, VA, WI



Drafting Appropriate Agreements: Key contract terms?

Choice-of-law and choice-of-forum

- Allows parties to select which state's law applies to contract interpretation and where litigation may/must occur
 - Even more important to restrictive covenant litigation where state laws differ dramatically and can determine the outcome
- Generally recognized, less so in state courts, where courts may engage in complicated conflict-of-law analyses
- In federal courts, motions to transfer venue based on choice-of-forum clause generally successful

Drafting Appropriate Agreements: Key contract terms?

Remedies clause

- Typically has employee agreeing that
 - violation of covenant would cause irreparable injury to employer, and
 - injunction shall issue if violation occurs
- Courts often ignore remedies clauses
- Recent Minnesota court enforced remedies clause, holding the court *must* enforce a provision agreed upon by the parties
 - Gives parties the benefit of their bargain
 - Presumption that parties intend contract language to mean something



Drafting Appropriate Agreements: Key contract terms?

Severability clause

- States that if any term or provision of contract is invalid, the rest of the contract is still enforced
 - Clause will not be applied if it changes the fundamental nature of the contract
 - Helpful for contracts with multiple restrictive covenants
 - » Overly broad non-compete may be voided but non-solicit agreement remains valid



Drafting Appropriate Agreements: Key contract terms?

Extension during breach / tolling

- Employers should get the full benefit of a restrictive covenant
- If employee violates covenant for a period, the covenant should be extended for the period of the violation
- Enforceability
 - Some courts hold tolling makes a restriction of ambiguous duration and therefore unenforceable
 - Some courts will enforce
 - » Reasonableness rules; courts consider:
 - Employee's voluntary remedial actions
 - Employee's willingness to try to comply during remainder of initial period
 - Negative financial effects on employee from extension of restrictions
- Some courts toll without contract provision

Drafting Appropriate Agreements: Key contract terms?

Claw-back or forfeiture-on-competition

- Employee agrees to repay compensation already received, or to forego future payments (typically equity) upon competition
 - Typically reserved for high-level executives
- Requirements
 - Benefit must actually be an incentive for performance with the company or for abiding by certain requirements, and cannot be regular wages
 - Must be a true function of the employee's choice – voluntary resignation or termination for cause.
 - Some courts will scrutinize for reasonableness

Drafting Appropriate Agreements: Key contract terms?

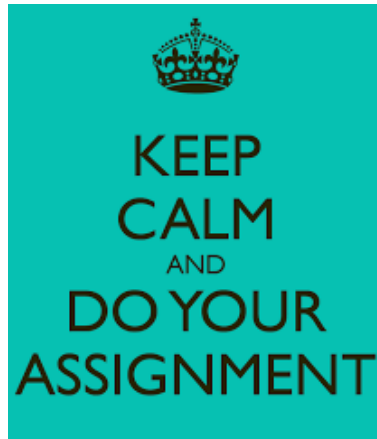
Defend Trade Secret Act notice

- DTSA provides immunity for disclosures made to government or in court filing
 - Employers must notify employees, contractors, and consultants of immunities in any agreement that governs the use of a trade secret or other confidential information
 - Failure to comply with notice requirement precludes recovery of exemplary damages or attorneys' fees under DTSA

Drafting Appropriate Agreements: Key contract terms?

Assignment

- Language authorizing the employer to assign the agreement and authorizing successors to enforce the agreement
 - Without clause, risk in some states where restrictive covenants are considered personal-service agreements that assignment is not allowed without employee consent



- Include express assignment clause and employee acknowledgement of consent to any assignment

Drafting Appropriate Agreements: Key contract terms?

Reformation (beware!)

- States apply different rules regarding whether overly broad restrictions may be rewritten, and how, by courts
- “Right to reform” provision may serve as evidence that employer knew covenant was too broad when written



Drafting Appropriate Agreements: Key contract terms?

Liquidated damages (beware!)

- Liquidated damages clause can negate request for injunctive relief
 - TRO movant must prove there is no adequate remedy at law, meaning damages cannot be calculated
 - But liquidated damages that specify the amount of damages that one party will receive if the other party breaches the agreement

Drafting Appropriate Agreements: Key contract terms?

Attorneys' Fees and Costs

- If employee breaches, he must pay employer's fees and costs in enforcing agreement, including in seeking and obtaining injunctive relief
- Cautions
 - Rarely enforced, as a practical matter
 - Often a stumbling block to resolution
 - Beware one-directional attorneys' fees provision that may be made mutual by operation of statute
(Cal. Civ. Code § 1717)

Drafting Appropriate Agreements: Key contract terms?

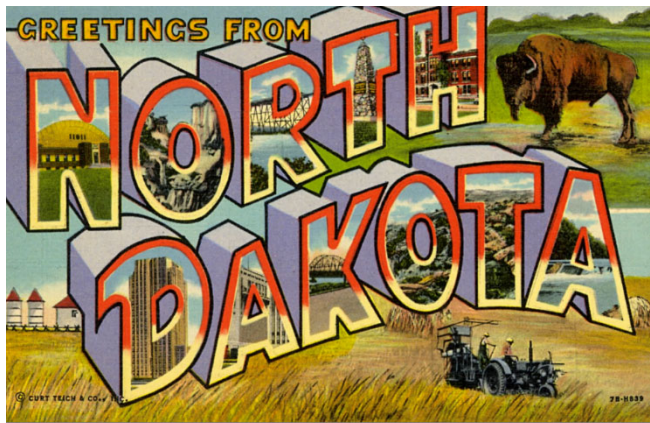
Arbitration

- If contract provides for arbitration of disputes, include clear carve-out for injunctive relief
- Some courts may hold carve-out must be mutual, otherwise it is considered procedurally unconscionable



Restrictive Covenants- Beware the “No Go” States

Some states limit restrictive covenants by statute.



Restrictive Covenants – CA / CO / ND / OK

- **CA:** “[E]very contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void.”
 - Exceptions: sale of business, protect trade secrets
- **CO:** “Any covenant not to compete which restricts the right of any person to receive compensation for performance of skilled or unskilled labor for any employer shall be void”
 - Exceptions: sale of business, protect trade secrets, or “Executive and management personnel and officers and employees who constitute professional staff to executive and management personnel”

Restrictive Covenants – CA / CO / ND / OK

- **ND:** “Every contract by which anyone is restrained from exercising a lawful profession, trade, or business of any kind is to that extent void”
 - Exception: sale of business
- **OK:** “A person who makes an agreement with an employer, whether in writing or verbally, not to compete with the employer after the employment relationship has been terminated, shall be permitted to engage in the same business as that conducted by the former employer or in a similar business as that conducted by the former employer”
 - Exception: solicitation of established customers of former employer

Restrictive Covenants – CA / CO / ND / OK

- Exception – Sale of business
 - Must include sale of good will
 - Sale of all of shareholder's stock
 - Dissolution of partnership
 - Restriction can only run in favor of the buyer, not the seller
 - Restrictions narrowly construed to apply only to existing customers/employees of business at time of sale



Restrictive Covenants – Notable state reforms...

- Many states have passed or proposed legislation to curtail use of restrictive covenants
- Limitations include:
 - Bans on non-competes for low-wage workers
 - Bans on non-competes for tech industry workers
 - Notice requirements
 - Durational limits
 - Invalidation of choice-of-forum and choice-of-law clauses
 - Employee right-to-counsel requirements
 - Suits by employees for being forced to sign unenforceable contracts

Restrictive Covenants – California Strategy

- Include choice-of-law, choice-of-forum provisions
- Include carefully crafted customer non-solicit restriction grounded in trade secret protection
- Include employee non-solicit restriction if a concern



Restrictive Covenants – California Strategy

- Non-California choice-of-law, choice-of-forum provisions
 - California Labor Code 925
 - Limits employer's ability to require employees to agree to litigate outside of California
 - Applies to employers entering new employment agreements with unrepresented employees who primarily work and reside in California

Restrictive Covenants – California Strategy

- Avoiding Labor Code 925
 - Challenge 925 as unconstitutional?
 - Employee does not reside and work in California?
 - Include a savings clause and time period to void
 - Condition forum-selection provision on receipt of optional compensation or benefits
 - Use permissive rather than mandatory language

“This Agreement shall be governed by and construed in accordance with the internal laws of the State of _____ without reference to principles of conflicts of laws and each of the parties hereto irrevocably consents to the jurisdiction and venue of the federal and state courts located in the State of _____.”

Restrictive Covenants – California Strategy

- “Trade Secret Exception”
 - California federal courts: “Under California law, non-competition agreements are unenforceable unless necessary to protect an employer’s trade secret.”
 - California state courts: never expressly invalidated trade secret exception

exception 

Restrictive Covenants – California Strategy

- Agreements acknowledging employees' obligations to keep proprietary and trade secret information confidential
 - “After Employee’s termination of employment, Employee shall not compete with Employer by using any confidential proprietary or trade secret information”
 - Specify precise categories of information to keep confidential
 - If possible, describe “competition”
 - The more specificity the better

Restrictive Covenants – California Strategy

- Non-solicitation of employees: likely enforceable if reasonable in duration
 - Non-solicitation of customers is only enforceable if:
 - Reasonable
 - Necessary to protect trade secrets or confidential proprietary of the employer
 - Remember merely informing employer's former clients of new employment/transition is not solicitation

Restrictive Covenants – California Cautions

- Dangers of overly broad restrictions
 - Employee can preemptively sue, requesting a court to invalidate the agreement
 - Declaratory relief
 - Injunctive relief
 - Contractual attorneys' fees
 - Employer pays employee's costs



Restrictive Covenants – California Cautions

- Dangers of overly broad restrictions
 - Cal. Bus. & Prof. Code § 17200 Unfair Business Practice
 - Cal. Labor Code § 432.5: “No employer shall require any employee or applicant to agree, in writing, to any term or condition which is known by such employer to be unlawful.”
 - Private Attorney General Act: enforcement mechanisms for Labor Code sections

Restrictive Covenants – Mergers and Acquisitions

Due diligence is critical!

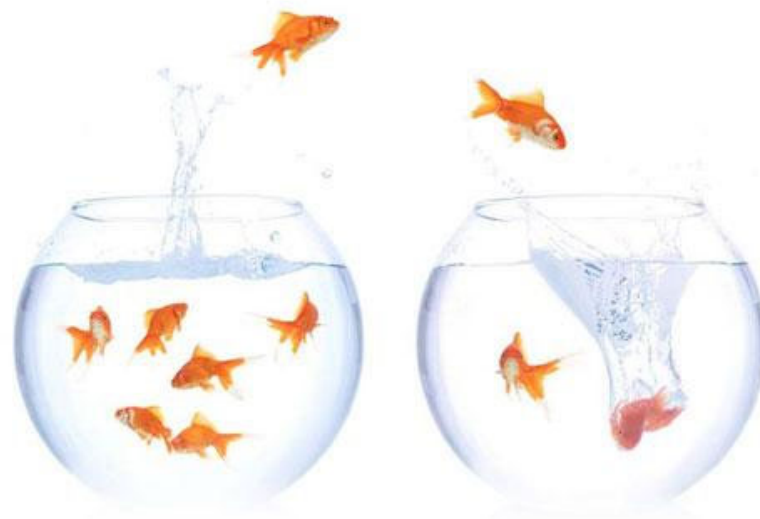
- Check whether target company has its key people under enforceable restrictive covenants
 - Don't rely on just the HR files
 - Analyze what restrictions are in various contracts
- Assess employee locations and enforceability under different states' laws
- Confirm consideration (signed at inception of employment?)

Restrictive Covenants – Mergers and Acquisitions

- Can acquiring entity enforce old non-competes after the deal closes?
 - Analyze assignment clauses
 - Review applicable state law on assignment based on stock versus asset purchase
 - Mergers and stock purchases more likely to transfer the right to enforce
 - Asset purchases are less clear

Restrictive Covenants – Mergers and Acquisitions

- Should acquiring entity require new covenants?
 - Build negotiation strategy or getting new or better agreements in place
 - Be mindful of post-merger attrition problems



Restrictive Covenants – Mergers and Acquisitions

- New agreement rollout
 - Address consideration
 - Depends on form of transaction (e.g., in statutory merger, employment may continue uninterrupted)
 - For multi-state employers, one size definitely does not fit all
 - But choice-of-law can help
 - Add carrots to the sticks (stay-bonuses, etc.)



Part II: Litigating the Case



- A. Discovery Issues
- B. Litigation – Plaintiff Side
 - Litigation strategies
 - Potential legal claims
- C. Litigation – Defense Side
 - Litigation strategies
 - Hiring concerns
 - Establishing justification
- D. Resolution and Settlement

Discovery Issues

- Litigation in this area is complex and fast moving
- Critical to preserve potentially relevant evidence
- Issue robust litigation holds
 - Include text message guidance
 - iPhone and Android auto-deletion settings



Discovery Issues



- Electronic evidence
 - Expedited investigation of employee emails, work computer, cell phone
 - Third-party forensic expert usually necessary
- Forensics findings
 - Emails to private email accounts
 - Suspicious deletions
 - External devices
 - Cloud storage

Discovery Issues

- Alternative sources of evidence
 - Salesforce activity
 - Copy machine logs
 - Workplace cameras
 - Door entry and exit logs
 - Log-in and log-off information
 - GPS data

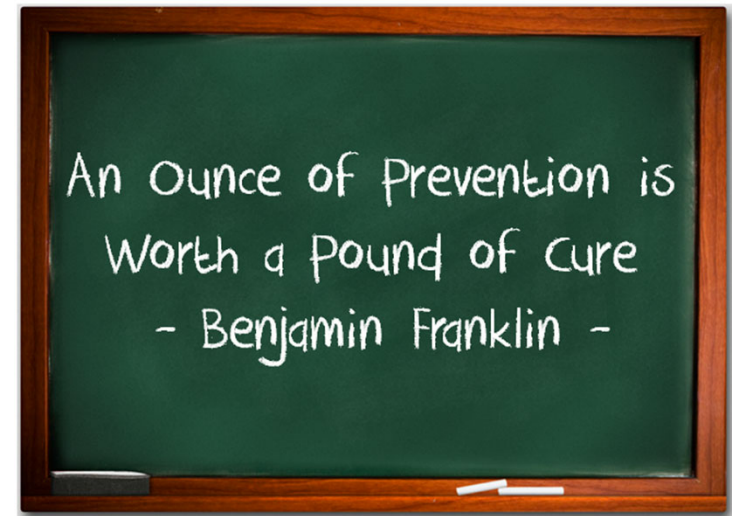


Litigation – Plaintiff Side

- Potential claims
- Litigation strategy
 - Cease and desist letter, and to whom?
 - When to sue?
 - Whom to sue?
 - Where to sue?

Potential Claims

- Breach of Contract
- Tortious Interference
- Trade Secret Misappropriation
- Common Law Claims
 - Duty of Loyalty
 - Aiding and Abetting
 - Conversion & Replevin
 - Usurpation of corporate opportunity
 - Civil Conspiracy
- Computer Fraud and Abuse Act



Potential Claims: Tortious Interference

- Actions against new employer
 - Former employer's claim for tortious interference with a contract or an alleged conspiracy to breach a contract or harm a business
 - At least in Minnesota, damages can include the attorneys' fees spent enforcing the agreement against the former employee

Potential Claims: Protection of Trade Secrets

- The Uniform Trade Secrets Act (UTSA) (in all states except MA, NC, & NY) and the Defend Trade Secrets Act define a trade secret as:
 - Information, including a formula, pattern, compilation, program, device, method, technique, or process, that is both of the following:
 - Derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use
 - Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy

Trade Secrets – Examples

- customer/client/patient lists
- pricing information
- business strategies
- sales techniques
- methods of doing business
- computer software



Trade Secrets – Misappropriation

- Acquisition by a person who knows or has reason to know that the trade secret was acquired by improper means; or
- Disclosure or use of a trade secret by a person who
 - Used improper means to acquire knowledge of the trade secret; or
 - Knew or had reason to know that his knowledge of the trade secret was:
 - Obtained from a person who used improper means to get it;
 - Acquired under circumstances that required a duty to maintain its secrecy;
 - Derived from a person who owed a duty to the person seeking to maintain its secrecy; or
 - Acquired by accident or mistake.

Trade Secrets – why better than breach of contract?

- Injunctive relief – actual or threatened misappropriation
- Damages
 - Actual loss caused by misappropriation
 - Unjust enrichment
 - Reasonable royalties
- If willful and malicious
 - Punitive damages
 - Recovery of attorneys' fees
- DTSA – *ex parte* seizure

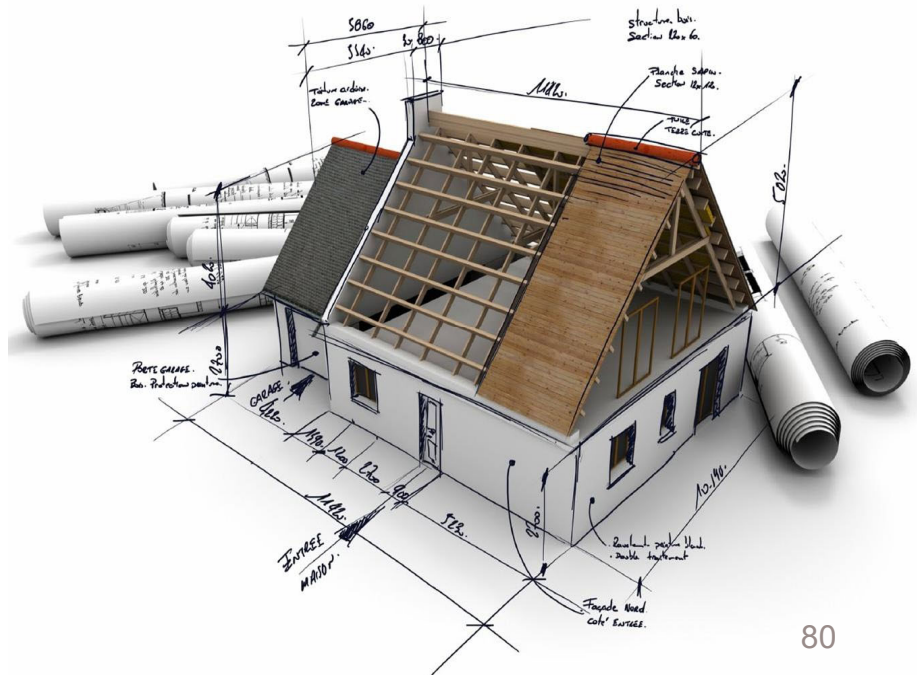


Potential Claims: Duty of Loyalty

- Generally, every employee owes a duty of loyalty to his/her employer during employment
 - Includes a duty to not compete with his/her employer while employed
- Directors and officers should exercise good faith business judgment as to the best interest of the corporation

Duty of Loyalty

- Employees (even officers and directors) can generally make plans to resign and subsequently compete with their employer without breaching their duty of loyalty
 - But how far can they go in “making plans”?



Duty of Loyalty

- Employees cannot:
 - Use employer's trade secrets for own benefit
 - Misuse employer's confidential information
 - Usurp corporate opportunity
 - Tortiously interfere with a contract or business expectancy
 - *No collusion!*



Potential Claims: Aiding and Abetting / Conspiracy

- “Helping” Claims
 - **Aiding and Abetting** (intentionally and substantially assisting or encouraging another’s conduct in breaching a duty to a third person)
 - **Civil Conspiracy** (agreement between two or more people to commit an unlawful act)
- Useful to impute wrongdoing of one defendant to other defendants



“If it were the well-planned, well-executed conspiracy that you claim, I wouldn’t be here.”

Potential Claims: Conversion / Replevin

- Conversion & Replevin
 - Common law actions to get your stuff back
 - Generally applies to personal property, so useful to obtain return of company computer, flash drive, etc.



Potential Claims: Usurpation of Corporate Opportunity



Usurpation of corporate opportunity

- officer or director exploits an advantage or offer she gained by virtue of her status as an insider of which the corporation itself could have taken advantage
- Less applicable for sales employees for which customer non-solicits are used

Potential Claims: Computer Fraud and Abuse Act

- Computer Fraud and Abuse Act
 - Prohibits accessing a computer without authorization or in excess of authorization
 - Mixed case law regarding employees accessing work computers to copy and steal information
 - Previously useful to get into federal court, now less so with passage of Defend Trade Secrets Act

Litigation Strategies & Action Plan



Letters

- Should you send?
 - Cheaper than lawsuit – if it works
 - Portrays your company as reasonable
 - But, opens you up to possible declaratory judgment action

Litigation Strategies & Action Plan

Send cease-and-desist to the new employer?

PRO

- Shows seriousness and aggressiveness
- Educates new employer
- Early resolution (e.g., termination)

CON

- Tortious interference / defamation claims
- Raises cost of defense (mixed blessing)
- Business considerations



Litigation Strategies & Action Plan

- When to sue?
 - Move quickly and aggressively (when appropriate)
 - Fact investigation with client (i.e., don't just trust what the client tells you)
- Whom to sue?
 - Former employee
 - New employer
 - Individual officers and employees of new employer

Action Plan – Litigation Considerations

- Where to sue?
 - Forum selection clause
 - Closely related doctrine for personal jurisdiction
 - Federal versus State court differences
 - Striking a bad judge
 - Jury verdict
 - MN = 5/6 verdict after six hours of deliberations
 - Federal = Unanimous, unless stipulation



Litigation – Defense Side

- Hiring an employee with a restrictive covenant or who has trade secrets
- Setting up a justification defense
- Defending the lawsuit

When *hiring* a new employee

- Legal considerations
 - Determine whether candidate has non-compete or non-solicit obligations
 - Determine what state's law applies and evaluate enforceability under that law
 - Determine where former employer can bring suit
 - Consider declaratory judgment action

When *hiring* a new employee

- Factual considerations
 - Create evidence that (1) employee is complying, and (2) new employer is not interfering, with the covenant
 - Offer letter language
 - Job description language
 - Acknowledgment by employee that no information from prior employer has been taken
 - Indemnification



When *hiring* a new employee

- Minimize risk of tortious interference
 - Avoid being the target of a TRO by providing enough assurance that former employer does not sue
 - Shift burden to former employer to specify its trade secrets, and measures they recommend new employer takes
 - Imply that former employer will have to expose its trade secrets in litigation

Establish Justification Defense

- Selection of counsel
 - In-house counsel – need expertise; risks appearance of bias
 - Primary outside counsel – risks overlapping roles with litigation defense counsel
 - Other outside counsel – expertise, independence, freedom to be wrong

Establish Justification Defense

- Proving reasonable reliance
 - Attorney factually equipped to offer advice
 - Review agreement
 - Possibly review offer letter, job description
 - Possibly interview hiring manager, prospective supervisor
 - Act in good faith reliance on attorney advice



"Sure I shot him — but I shot him in good faith!"

Establish Justification Defense

- Selection of the witness
 - Company Representative – A company representative (business or HR) who will make a good witness is a good choice.
 - In-House Counsel – Risks attorney/client privilege waiver issues, and most in-house counsel do not want to be witnesses.
 - Primary Outside Counsel – No. The attorney defending you in court cannot also be a witness.
 - Other Outside Counsel – Creates image of independent, dispassionate opinion, and wrong advice will not reflect as poorly on company.

When *hiring* a new employee

Attorney's Sample File
546 East North Street
Someplace, FL 32244

Invoice for Professional Services

Emily Voller
15467 Shortstop Place
Central, FL 32244

Date: 4/23/2013
Invoice #: 3
Matter:

Date	Description	Hours/Qty	Rate	Amount
4/2/2013	Meeting with client to review information about the letter received from	2.5	250.00	625.00
4/3/2013	Legal research about something	1	250.00	250.00
4/4/2013	Preparation of some document	0.4	250.00	100.00
4/4/2013	TC with client regarding	0.1	250.00	25.00
	Sales Tax		7.00%	0.00
Total				\$1,000.00
Payments/Credits				\$0.00
Balance Due				\$1,000.00

Phone # 904-555-1212
Fax #
E-mail

- Proving the advice occurred
 - Evidence can be either oral or written
 - Proof of written exchange between attorney advisor and company best
 - Billing records likely an exhibit
 - Create limited billing records, without redactions, that do not otherwise waive privilege

Establish Justification Defense

- Proving the substance of the advice
 - Advice can be either oral or written
 - Written generally better, but provides easier target for opposing counsel
 - Create clean, attractive exhibit for jury



"You say you fell in the forest, and yet you can't produce even *one* witness."

Action Plan – Litigation Considerations

- You're getting sued...now what?
 - Legal analysis
 - Determine enforceability, forum, law
 - Factual analysis
 - Create evidence of compliance
 - Offer letter language
 - Job description language
 - Acknowledgment that no information from prior employer has been taken
 - Indemnification

Action Plan – Litigation Considerations

- You're getting sued...now what?
 - Legal analysis – determine enforceability, forum, law, other defenses
- Whom to represent?
 - Separate counsel for individuals
 - Who pays?
 - Duty for employer to provide defense?
 - State laws
 - Corporate by-laws
 - Coordination among counsel
 - Joint defense or common interest agreements

Settling and Resolving Cases

- All* restrictive covenant / trade secrets cases settle
- The goal of pre-litigation and litigation is to set your client up for favorable settlement
- Settlement considerations
 - Direct talks / settlement conference / mediation
 - Pre- or post-discovery
 - Pre- or post-TRO motion
 - Effective settlement offers and demands

* Well, almost all.

Settling

- Direct talks / settlement conference / mediation
 - Cases can be bet-the-company
 - Often involve sales representatives
(read: challenging personalities)
 - High emotion – suits between direct competitors

Settling

- Pre- or post-discovery
 - Case-by-case, depends heavily on plaintiff versus defendant perspective
 - Expedited, informal discovery
 - Targeted depositions / interviews



"I ask the witness to quit taking advantage of the fact that his deposition is not being videotaped."

Settling

- Pre- or post-TR0 motion
 - TR0 ruling usually wins or loses the case...the ultimate leverage
 - Significant investment
 - Expedited document review and production, expedited depositions
 - Live witness testimony
 - Court order in the public domain

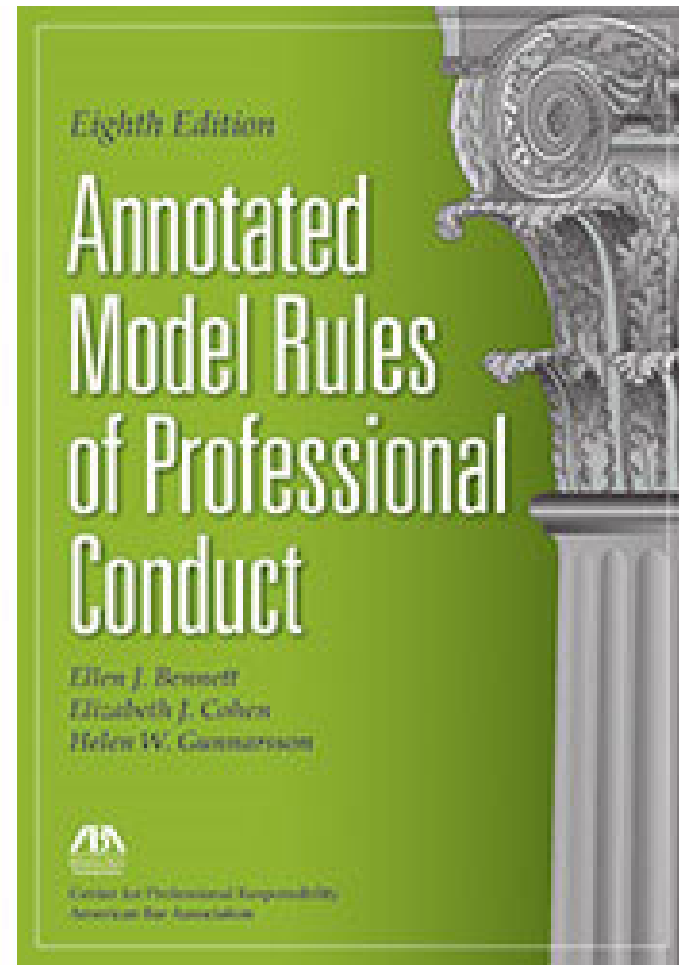
Settling

- Effective settlement terms
 - Reasonable restrictions short of contract, with methods for verification
 - Forensic investigation and remediation
 - Sworn affidavits of compliance
 - Court-ordered settlement agreement?

Presentation Roadmap – Part III

Conflicts and Ethics Issues

- A. Competence
- B. Diligence
- C. Communication
- D. Conflicts of Interest &
Organization as Client



Competence

Rule 1.1 Competence

A lawyer shall provide competent representation to a client. Competent representation requires the legal knowledge, skill, thoroughness, and preparation reasonably necessary for the representation.

Competence

- Restrictive covenant / trade secret claims require particular skills and specialization
- General business and employment attorneys often try to handle these matters (to the client's detriment)
 - Necessary study can provide competence, but quick moving cases prohibit study time
 - In emergencies, any lawyer can assist, but limit to what is “reasonably necessary”

Diligence

Rule 1.3 Diligence

A lawyer shall act with reasonable diligence and promptness in representing a client.

Diligence

- Time is the enemy in seeking or responding to a TRO motion
 - Delay in seeking a TRO shows failure to protect interests
 - Delay in responding to a TRO motion can mean losing the motion (and essentially the case)
 - Delay here means hours or days, not weeks

Communication

Rule 1.4 Communication

- (a) A lawyer shall:
- (1) promptly inform the client of any decision or circumstance with respect to which the client's informed consent, as defined in Rule 1.0(f), is required by these rules;
 - (2) reasonably consult with the client about the means by which the client's objectives are to be accomplished;
 - (3) keep the client reasonably informed about the status of the matter;
 - (4) promptly comply with reasonable requests for information; and
 - (5) consult with the client about any relevant limitation on the lawyer's conduct when the lawyer knows that the client expects assistance not permitted by the rules of Professional Conduct or other law.
- (b) A lawyer shall explain a matter to the extent reasonably necessary to permit the client to make informed decisions regarding the representation.

Communication

- Prompt consultation with client is critical – decisions need to be made
 - Communicate the law – difficult to provide definitive advice
 - Communicate strategy – Send a letter? Conduct forensic investigation? Move for TRO? Move for declaratory judgment? Remove to federal court? Other defensive actions?

Conflicts of Interest

Rule 1.7 Conflict of Interest: Current Clients

- (a) Except as provided in paragraph (b), a lawyer shall not represent a client if the representation involves a concurrent conflict of interest. A concurrent conflict of interest exists if:
- (1) the representation of one client will be directly adverse to another client; or
 - (2) there is a significant risk that the representation of one or more clients will be materially limited by the lawyer's responsibilities to another client, a former client or a third person, or by a personal interest of the lawyer.
- (b) Notwithstanding the existence of a concurrent conflict of interest under paragraph (a), a lawyer may represent a client if:
- (1) the lawyer reasonably believes that the lawyer will be able to provide competent and diligent representation to each affected client;
 - (2) the representation is not prohibited by law;
 - (3) the representation does not involve the assertion of a claim by one client against another client represented by the lawyer in the same litigation or other proceeding before a tribunal; and
 - (4) each affected client gives informed consent, confirmed in writing.

Conflicts of Interest

Rule 1.13 Organization as Client

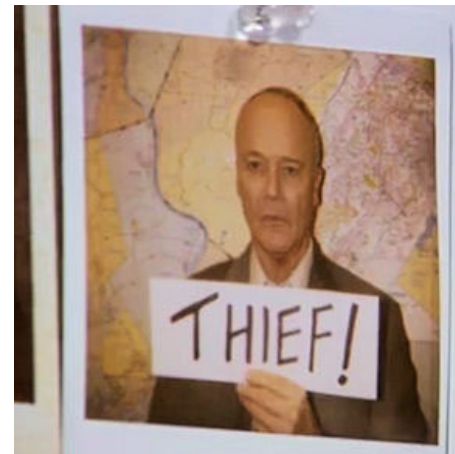
- (a) A lawyer employed or retained by an organization represents the organization acting through its duly authorized constituents.
- (b) If a lawyer for an organization knows that an officer, employee or other person associated with the organization is engaged in action, intends to act or refuses to act in a matter related to the representation that is a violation of a legal obligation to the organization, or a violation of law that reasonably might be imputed to the organization, and that is likely to result in substantial injury to the organization, then the lawyer shall proceed as is reasonably necessary in the best interest of the organization. Unless the lawyer reasonably believes that it is not necessarily in the best interests of the organization to do so, the lawyer shall refer the matter to higher authority in the organization, including, if warranted by the circumstances, to the highest authority that can act on behalf of the organization as determined by applicable law.
-
- (e) In dealing with an organization's directors, officers, employees, members, shareholders or other constituents, a lawyer shall explain the identity of the client when the lawyer knows or reasonably should know that the organization's interests are adverse to those of the constituents with whom the lawyer is dealing.
- (f) A lawyer representing an organization may also represent any of its directors, officers, employees, members, shareholders or other constituents, subject to the provisions of Rule 1.7. If the organization's consent to the dual representation is required by Rule 1.7, the consent shall be given by an appropriate official of the organization other than the individual who is to be represented, or by the shareholders.

Conflicts of Interest

- Differing defenses
 - Employer argues lack of knowledge of the non-compete (employee didn't tell us)
 - Employer argues the employee certified good behavior (employee lied to us)
 - Joint defense creates a presumption that new employer was aware of the agreement, reviewed it, assessed its validity, and hired the employee anyway

Conflicts of Interest

- Employee bad acts
 - Employee stole confidential information, solicited customers, circulated information at new employer, etc.
 - In joint defense arrangement, employer gets imputed with knowledge of bad acts and adoption of bad behavior



Conflicts of Interest

- Prompt identification of potential and existing conflicts
 - Obtain informed written consent for continued joint representation



Conflicts of Interest

- Paying the individual's attorneys fees
 - Does not itself necessarily create conflict if representation decisions are, in fact, independent
 - But creates appearance of conflict in deposition and at trial

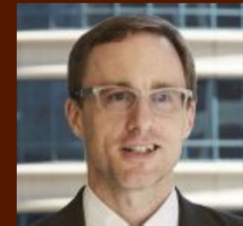


Thank You!!!



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