



Employment Law Update 2011 ■ August 4, 2011

Key Employees: Poaching, Trade Secrets and Unfair Competition

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Central Ohio Chapter

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Confidentiality Agreements, and Unfair Competition Prevention Plan

Stage I – The Initial Audit and Identification of Interests

Stage II – Selection of Contract and Policy Alternatives

Stage III – Employment Cycle Issues and Evidence Preservation

Stage IV – Enforcement / Litigation Planning



Stage I – The Audit

- ❑ ***Why Do It?***
- ❑ **Understanding the protectable interests for your company:**
 - Geographic variations
 - Variations by business type
 - Trade secrets; goodwill; specialized training
- ❑ ***Brentlinger Enterprises v. Curran***
- ❑ **Ask yourself: “What gives the employee an *unfair competitive advantage* if he works for a competitor?”**

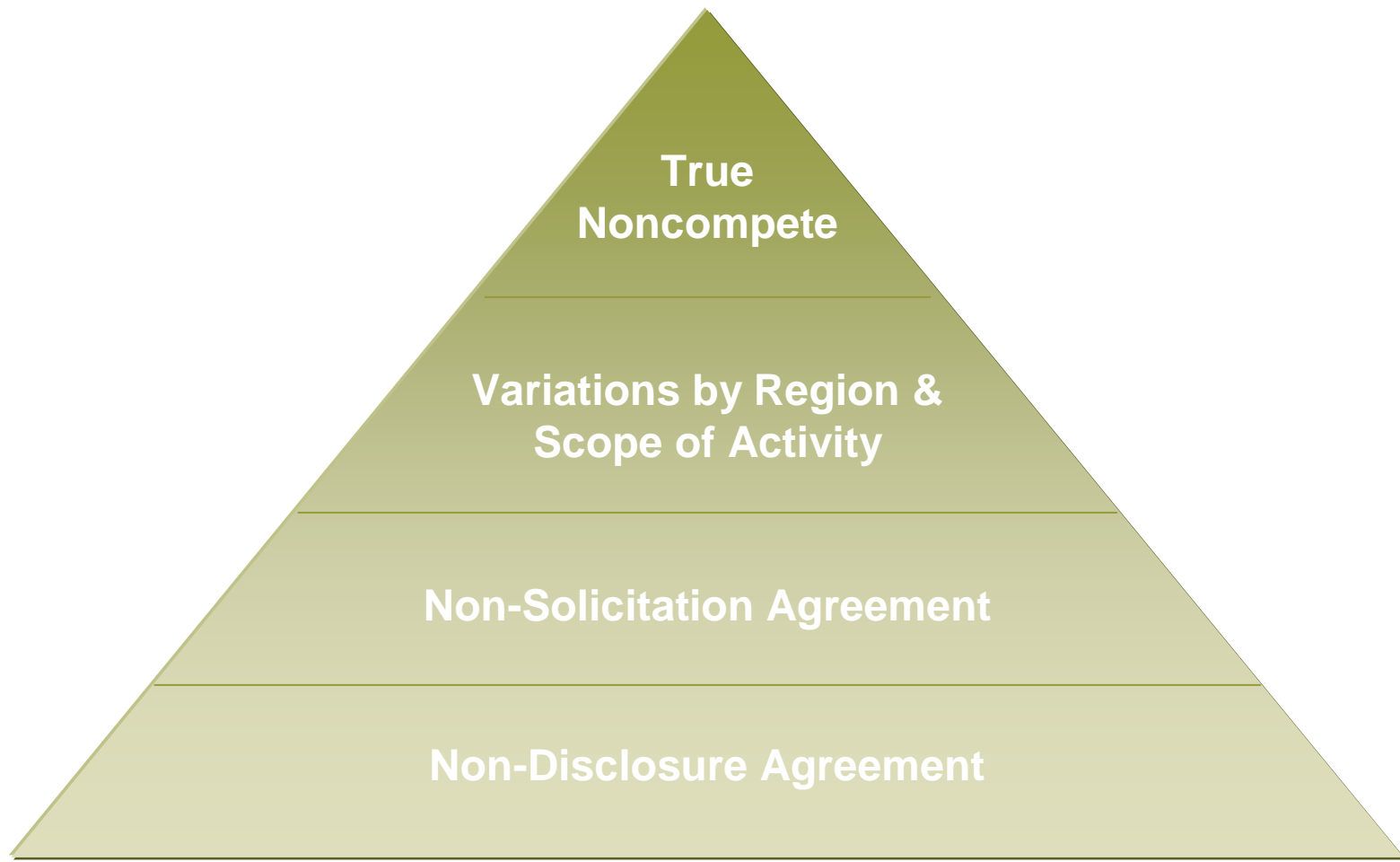


Stage I – The Audit

- ❑ *Why Do It?*
- ❑ Identifies the true, supportable trade secrets or other interests
- ❑ It helps prioritize practical steps
- ❑ Interviews and premises inspection reveal hidden dangers and opportunities
- ❑ Forces thinking through key issues in advance

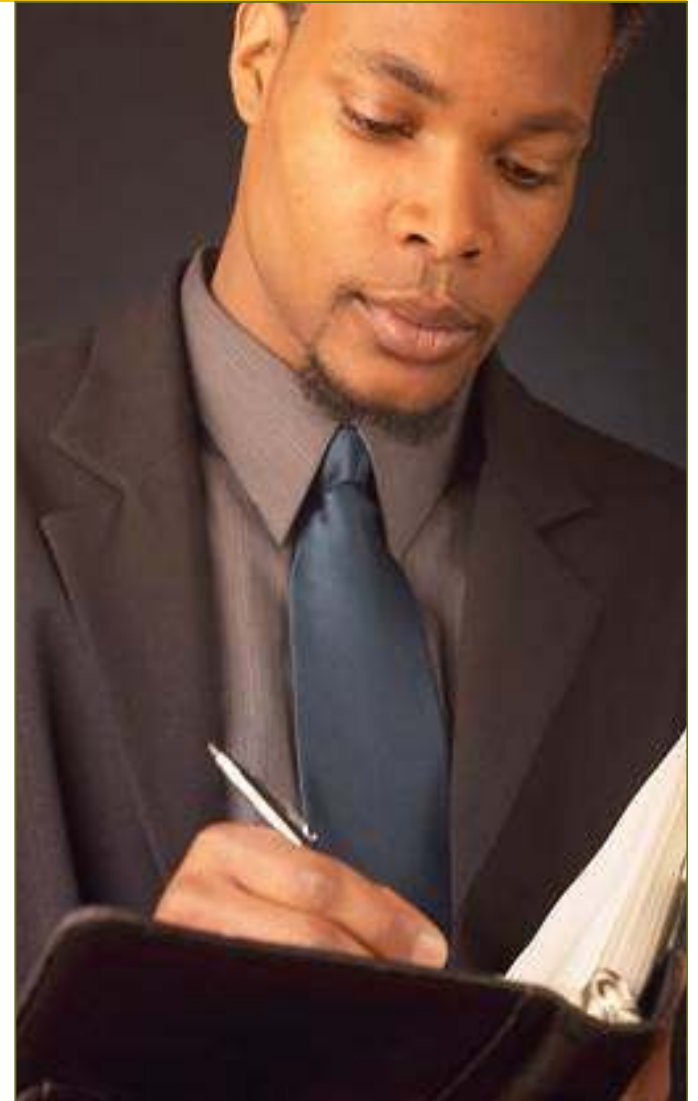


Stage II: Contract & Policy Evaluation



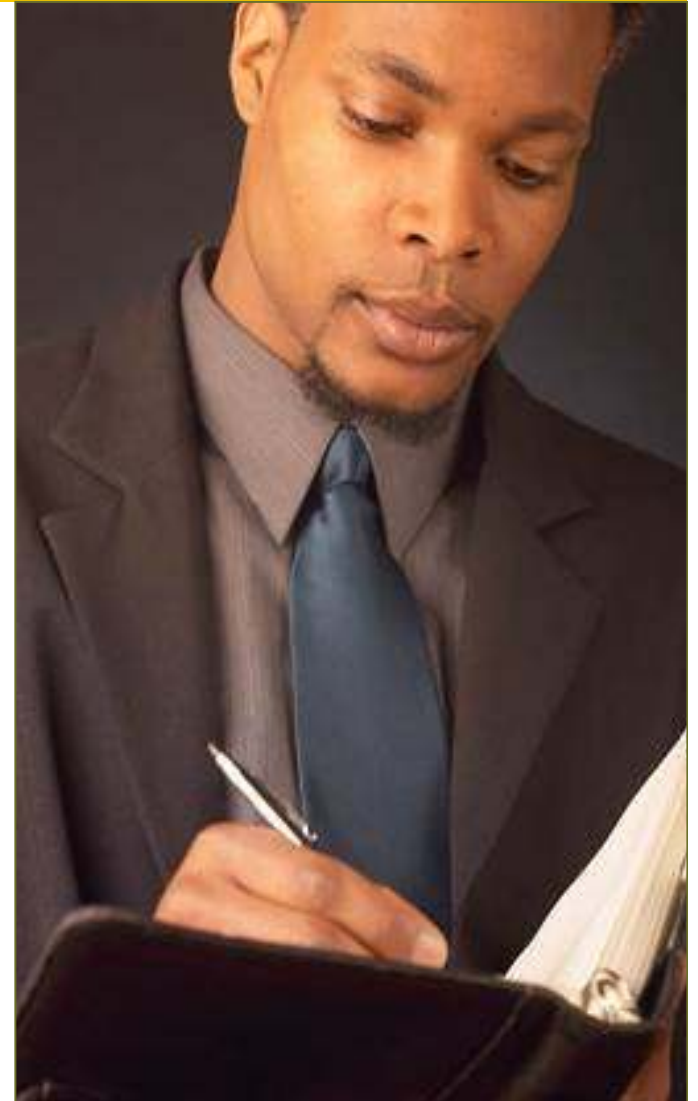
Contract Options (Beyond Noncompetes)

- ☐ **Mandatory notice provisions**
- ☐ **Duty of loyalty**
- ☐ **Resolution conferences**



Contract Options (Beyond Noncompetes)

- ❑ **Stock plan approach –
restricted stock or option plan
("clawback")**
- ❑ **Consulting period /
"garden leave"**
- ❑ **Pay to search elsewhere**



There Is Danger In Overreaching

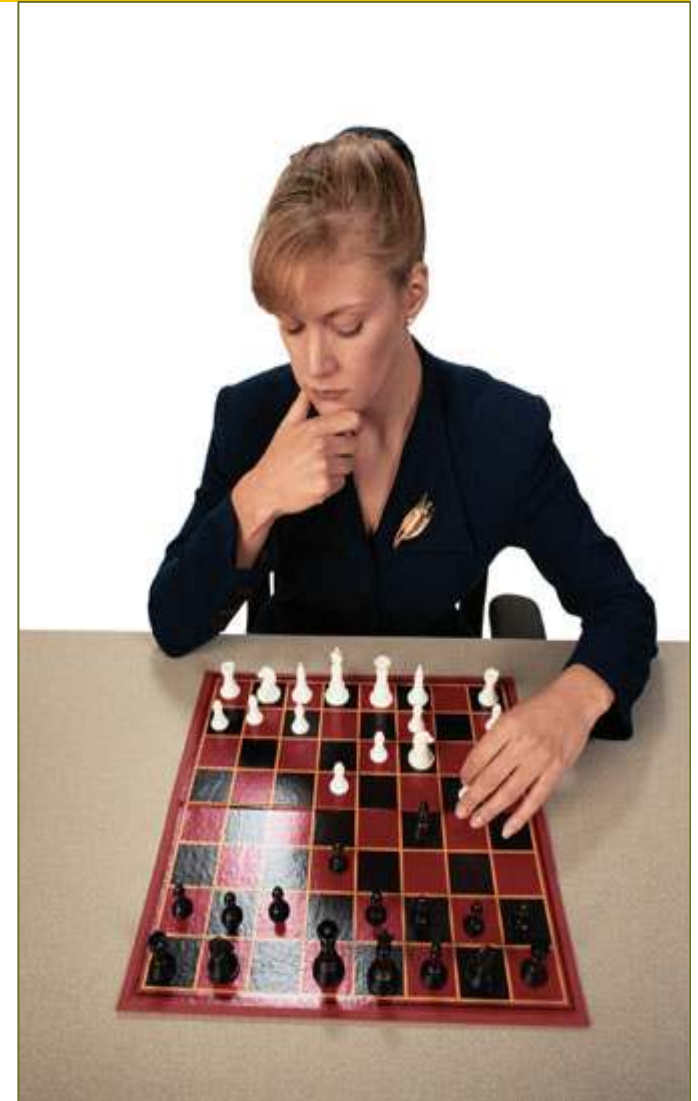
- ☐ **Customer non-solicit v. “true” noncompete**
- ☐ **Geographic/temporal limitations:**
 - *Jacono/Sunrise Medical v. Invacare Corp. (Ohio Ct. App.) – U.S., three years*
 - *But see PrecisionIR, Inc. v. Clepper (S.D.N.Y) – U.S. & Canada, six months*
- ☐ **Reformation law (“blue pencil”) can be decisive – variations:**
 - *Michael’s Finer Meats, LLC v. Alfery (S.D. Ohio) – restriction from working in several states modified to single county*
 - *Murray v. Accounting Ctr. & Tax Servs. (Ohio Ct. App.) - two year restriction modified to one year*



What's in It for Me?

The Need for Consideration

- ☐ **State variations**
- ☐ **Midstream agreements: consideration and other hurdles**
- ☐ **Threat of termination plus additional compensation**
 - *Cummings, Inc. v. Dorgan* (Tenn Ct. App.) – asserting legal right to terminate employee isn't duress



Stage III – Employment Cycle Forms And Checklists

☐ Recruiting:

- What goes around comes around

☐ Controlling communications:

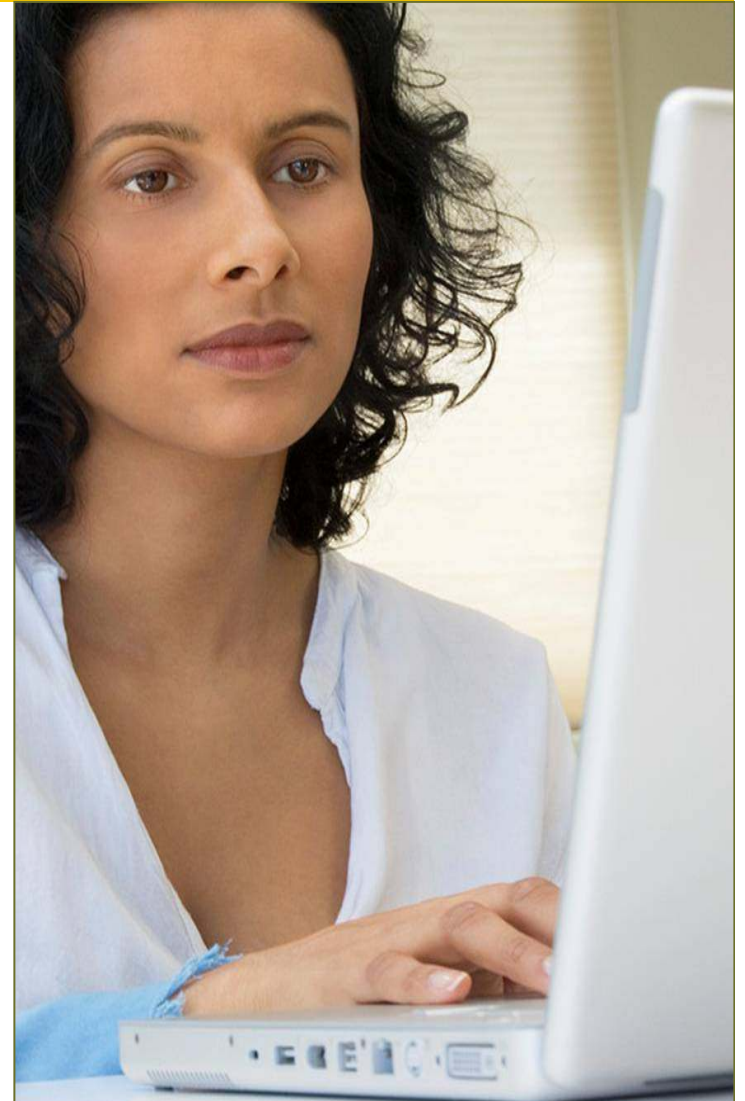
- *James Ltd. v. Saks Fifth Avenue, Inc.*
(Va. Cir. Ct.)

☐ “We need these guys and their clients!!!!”



Offer Letter

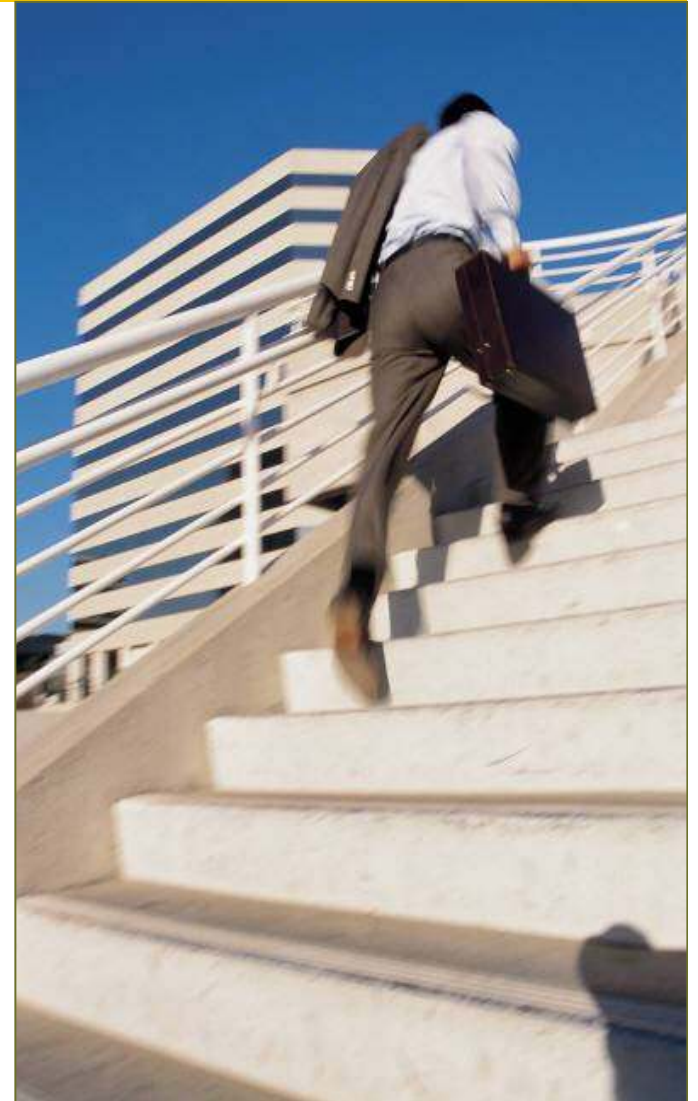
- ☐ **Notice of the noncompete**
- ☐ **Expectations regarding not bringing trade secrets**
- ☐ **Job description**



Preserve Your Evidence; Document It

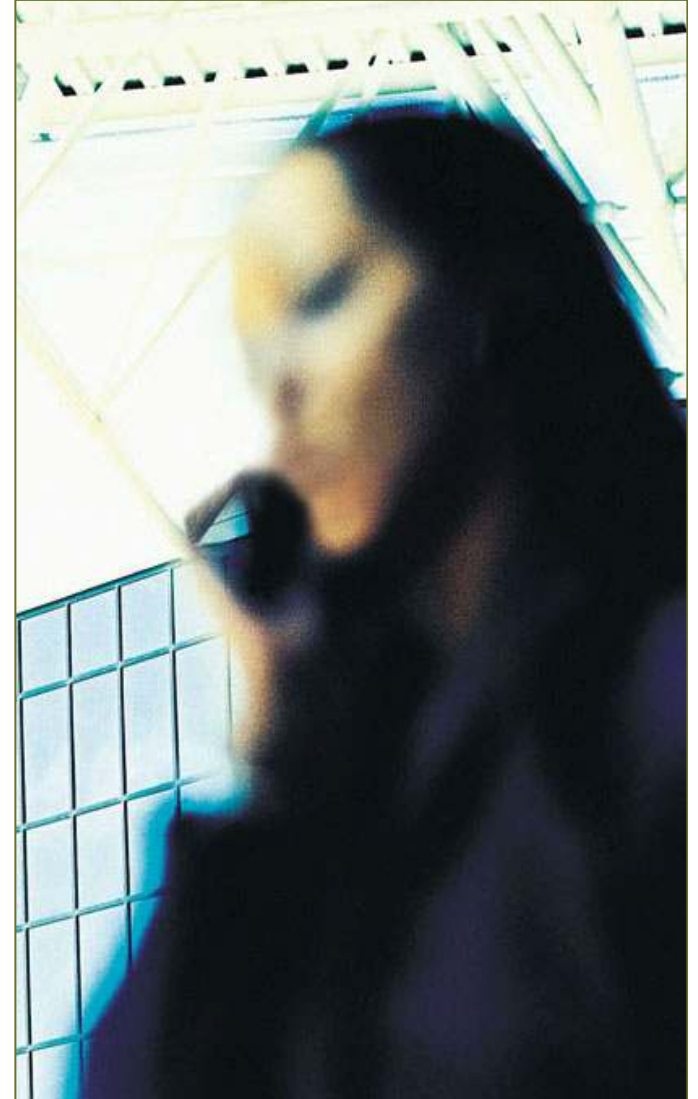
☐ Acknowledgment forms and records:

- Access to confidential information and trade secrets
 - *Hydrofarm, Inv. v. Orendorff* (Ohio Ct. App.) – inevitable disclosure at play only if have non-compete
 - *Prosonic Corp. v. Stafford* (S.D. Ohio) – threat of irreparable harm
- Development of customer goodwill
- Specialized training



Hidden Sources of Trouble

- ❑ **Cell phones: phone numbers given to customers**
- ❑ **Blackberry contact lists; other PDA devices**
- ❑ **Thumb drives**
- ❑ **Cloud computing**



Cloud Computing

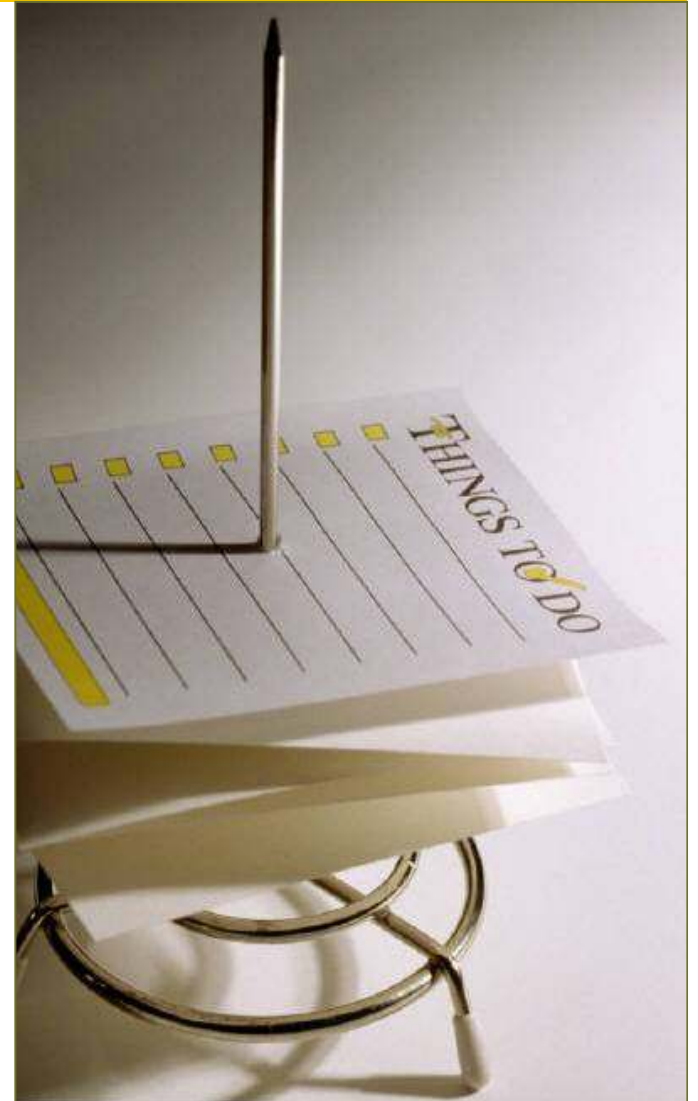
- ❑ **Cloud Computing**: “The use of a Web services such as Flickr, Google Docs, Jing (video screencapture service) to perform the functions that were traditionally done with software installed on an individual computer” (Penn State University)
- ❑ External service providers of cloud computing services are not always in line with the needs of the business, particularly if the relationship ends poorly

Cloud Computing

- ❑ **No or limited control over:**
 - Location of servers, who you share servers with, hardware, software staff, your data
- ❑ **Challenges to protecting trade secrets in the context of cloud computing:**
 - Maintaining trade secret status (reasonable efforts)
 - Cooperation from vendors when you need access to information (yours or theirs)
- ❑ **Select and retain vendors with appropriate security measures:**
 - Incorporate security requirements into vendor agreements

Employee's Departure

- ❑ Cover basic preservation of evidence: computers, files, etc.
- ❑ Exit interview
- ❑ Termination checklist
- ❑ Use of a reinforcement letter



Confidentiality
Agreements, and
Unfair Competition
Prevention Plan

Stage IV

Litigation Planning



Demand Letters

- ❑ **What triggers it? A strategy decision**
- ❑ **Can cause declaratory judgment action**
- ❑ **What next if it is ignored?**
 - *The Goodyear Tire & Rubber Company v. Continental Tire the Americas, LLC* (N.D. Ohio)
 - threatening legal action if don't retract employment offer
- ❑ **Responding to the demand letter to lay groundwork for tortious interference claim**



Getting Ahead of the Opponent

▣ Pre-planned, pre-litigation discovery

- Private investigators
- Computer forensics
- Witness statements
- Correspondence with customers, and other documents
- Hard files, computer files, etc.

Other Causes of Action

☐ **Breach of duty of loyalty:**

- Equitable forfeiture of wages

☐ **Conversion:**

- Corcoran Group, (NY SCT) (conversion of computerized client list)

☐ **Unjust enrichment:**

- Rain Bird Corp (\$1.2 million judgment upheld)

☐ **Tortious interference**

Poaching Cases

☐ ***Grubb & Ellis v. Whitt* (D.C. Ct.)**

- Claims against two former high-level employees and new employer that raided 23 real estate brokers

☐ ***Stamar Packaging, Inc. v. Inland Brothers* (Ill. Circuit)**

- Tortious interference, breach of fiduciary duty, and misappropriation claims against former sales rep and new employer for stealing trade secrets to poach client (no non-compete claims)

Poaching Cases

- ***Baker Hughes Oilfield Operations Inc. v. Specialty Oilfield Solutions LLC (Tx.)***
 - Claims against former sales manager and new employer for poaching ex-colleagues and using confidential information
 - Raided former team in spite of contract that prohibited solicitation for two years
- ***Farm Bureau Life Insurance Co. v. American National Insurance Co. (D. Utah)***
 - Employee and new employer conspired to poach nine employees
 - \$3.6 million compensatory damages. Jury originally recommended \$62 million in punitive damages, which was reduced to \$3.5 million, but ultimately thrown out by 10th Circuit

Defenses & Counterclaims

- ☐ **Tortious interference**

- ☐ **Defamation**

- ☐ **Antitrust**

- ☐ **Preemption**

- *Microstrategy Inc.* (Fed. Cir.): Virginia UTSA preempts statutory conspiracy claim

Witnesses

- ❑ **Company spokesman**
- ❑ **Impacted fellow employee**
- ❑ **Industry expert – what information is valuable in the industry?**
- ❑ **Expert on (non-competitive) job opportunities available for former employee**
- ❑ **Electronic evidence / computer forensic expert**



Questions & Answers





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THANK YOU

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