Restrictive Covenants and Trade Secret Considerations for a Remote Workforce

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February 16, 2021

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Fact Scenario #1

Acme Widget Company has hired Jane Doe from one of its direct competitors to sell widgets. At the start of her employment, it had her sign an employment agreement that contained non-competition and non-solicitation provisions as well as a confidentiality non-disclosure agreement.

As part of her employment, Doe will be given access to Acme's CRM (e.g. Salesforce) as well other information such as Acme's costs, profit margins, etc.

Because of Covid-19, Doe is working from home, not Acme's office. She lives 20 miles from Acme's office. She will be using an Acme laptop but will be using her own phone.

What is a Trade Secret?

- Trade secret is "all forms and types of financial, business, scientific, technical, economic, or engineering information, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if (A) the owner thereof has taken reasonable measures to keep such information secret; and (B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information." Defend Trade Secrets Act 18 U.S.C. §§ 1836, 1839

Policies to Protect Trade Secrets

- Implement written policies to protect confidential information
- Consider how remote working will be a part of the company's future on the other side of the pandemic

How does Acme Protect its Business?

Restrictive Covenants/Confidentiality Policies

- Non-Competition
- Non-Solicitation
- Confidentiality Agreement

Type of Restriction

- Geographic v. Customer
- Garden Leave

Pressure Points of Remote Working

Accidental mishandling of confidential data

- Others working / learning from home

- "Short-cuts"

- Printing

- Document disposal

- Alexa, Siri and Google

Establishing Protections During the Onboarding Process

- Employers must take reasonable measures to protect the information
- Steps to protect information during onboarding:
  - Educate employees about trade secrets
  - Limit access to trade secrets to employees with a "need to know"
  - Require written agreements with restrictive covenants
- Address restrictive covenants with prior employers and with your company at the outset

Policies/Contractual Terms to Protect Information
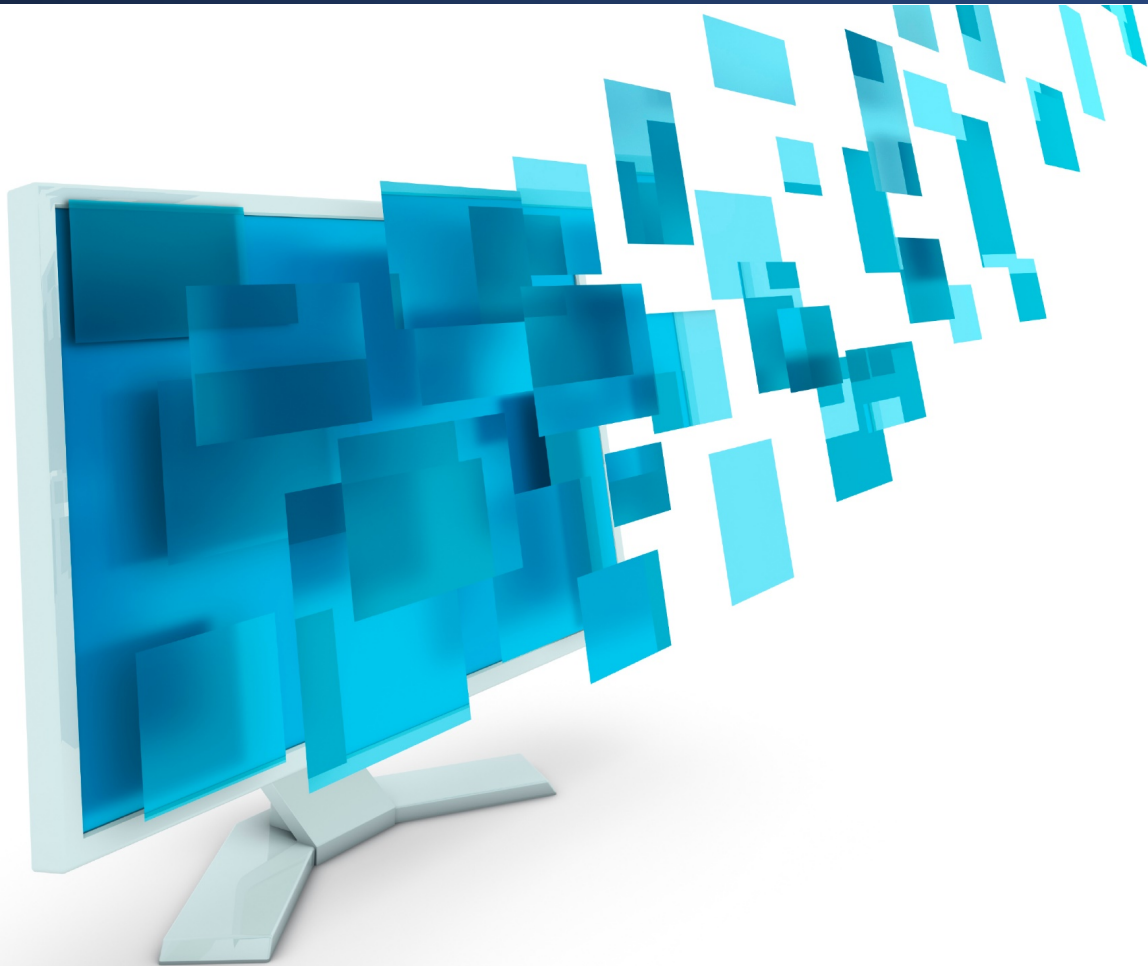
- Protect trade secrets on employees' personal devices used for work purposes
- Consider issuing remote work agreements
- Use technology solutions where feasible.

Fact Scenario #2

Acme Widget Company's employee John Doe recently resigned and has gone to work for a competitor. Doe had agreed to a restrictive covenant (non-solicitation and non-competition) while with Acme.

In addition, Acme has various policies regarding its confidential information and trade secrets.

Protecting Trade Secrets When Employment Ends

When employment ends:

- Remind employee of her obligations
- Provide employee with a copy of signed agreement
- Breach of obligations will be taken seriously
- Collect all company property from employee
- Discontinue passwords, log-in details, etc.
- Delete and provide confirmation

Protecting Trade Secrets When Employment Ends

Internal steps after employee leaves:

- Collect their email
- Provide alerts
- Send cease and desist letter
- File a lawsuit

Current Trends: Restrictive Covenant Enforcement Considerations During the Pandemic

Sympathy of the Court: Preliminary Injunction Denied

- ***Yellowstone Landscape v. Fuentes****, No. 4:20-1778, 2020 U.S. Dist. LEXIS 140422 (S.D. Tex. Aug. 6, 2020),* a federal judge in Texas was "unpersuaded that the threatened injury to Plaintiff from denial of a preliminary injunction outweighs the likely damage that the requested injunction would cause Defendant."

- ***BioConvergence LLC v. Attariwala****, No. 1:19-cv-01745-SEB-TAB, 2020 U.S. Dist. LEXIS 63701 (S.D. Ind. Apr. 10, 2020),* a federal judge in Indiana took "judicial notice of the broad scale economic disruptions caused by the COVID-19 pandemic that cast doubt on [the defendant]'s employment prospects, as it does for the vast majority of Americans during these challenging times."

- ***Schuylkill Valley Sports, Inc. v. Corporate Images Co.****,* No. 5:20-cv-02332, 2020 U.S. Dist. LEXIS 103828 (E.D. Pa. June 15, 2020), a federal court in the Eastern District of Pennsylvania that noted "not all businesses are open" due to the "coronavirus shutdown," concluded that the likelihood of the defendant "finding employment at this time is therefore reduced," and acknowledged that "the unemployment rates over the past few months are the highest in more than seventy years." In light of these conclusions, the court denied Schuylkill Valley's request for preliminary injunctive relief.

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Preliminary Injunction Granted

- ***USI Southwest, Inc. v. Edgewood Partners Insurance Center,*** No. 4:19-CV-04768, 2020 U.S. Dist. LEXIS 79537 (S.D. Tex. May 6, 2020), the defendant (a vice president in charge of business relationships) left to join a competitor and immediately began poaching the plaintiff's customers using confidential information. The court granted the preliminary injunction, concluding that the threatened harm to plaintiff — the loss of its customers, goodwill and reputation — outweighed any harm to the defendant. The court acknowledged the current difficulties caused by COVID-19, noting that "the courthouse [was] currently closed and various court employees [had] tested positive" but emphasized the importance of still providing timely relief.

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