



PROGRAM MATERIALS

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Restraining Former Employees from Improper Use of Confidential Information and Enforcing Non- Competition Provisions

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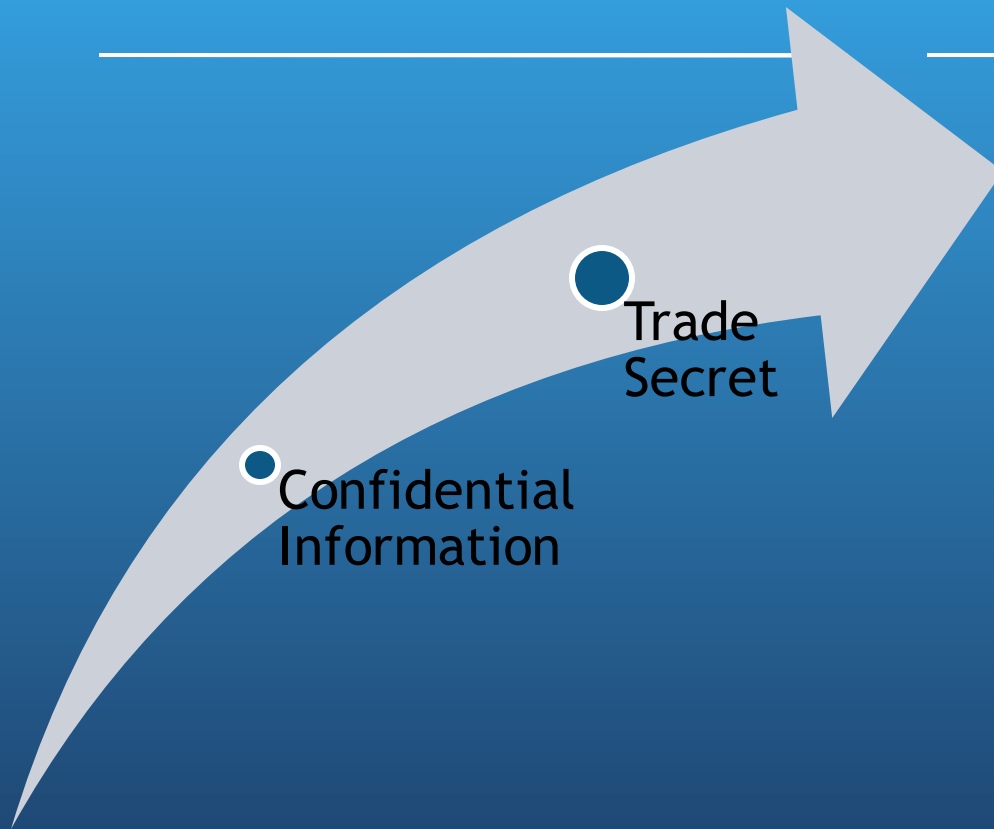
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Restraining Former Employees from Improper Use of Confidential Information and Enforcing Non-Competition Provisions

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Overview of Trade Secrets and Confidential Information



Does the
Confidential
Information rise
to the level of a
Trade Secret?

Defining Confidential Information

- Identify your company's competitive edge - what information is critical to this concept?
- Often money spent on research and development leads the way
- What information should your company protect? In other words, what information would be harmful if found in your competitor's hands?
- Information generally known or if it can be reverse engineered, trade secret protection is not likely

Defining a Trade Secret

STATE

Uniform Trade Secrets Act

- Derives economic value because of secrecy
- Protected by efforts to maintain secrecy
- Cannot be generally known
- Reasonable efforts to maintain secrecy
- All states *except* Massachusetts and New York have adopted a version of the UTSA

FEDERAL

Defend Trade Secrets Act of 2016

- Owner takes reasonable efforts to maintain secrecy; and
- Information derives independent economic value (actual or potential), from not being generally known and not being readily ascertainable *by another person who can obtain economic value from the disclosure or use of information.*

Judicially Recognized Examples of Trade Secrets

Examples of recognized trade secrets in various states under particular circumstances:

- Marketing plans;
- Sales data;
- Recipes;
- Chemical formulae;
- Detailed customer information;
- Commercial drawings.

Defining a Trade Secret - Illinois

Illinois courts focus on whether the information:

- Is secret.
- Has economic value because of its secrecy.



The economic value requirement prevents protection for information not generally known to the public but **clearly understood in a particular industry**. *George S. May Int'l Co. v. Int'l Profit Assoc.*, 628 N.E.2d 647, 654 (Ill. App. Ct. 1993).

A recent Illinois federal court case refused to dismiss part of a claim under the Illinois Trade Secrets Act that was **based on information contained in a social media group**. *CDM Media USA, Inc. v. Simms*, 2015 WL 1399050 (N.D. Ill. Mar. 25, 2015).

New Federal Civil Protection of Trade Secrets Defend Trade Secrets Act (DTSA)

- Legal analysis historically fact-specific and state-specific
 - Although DTSA now offers federal civil remedy to trade secret owners, courts likely look to state interpretations
 - *Henry Schein, Inc. v. Cook*, 2016 WL 3418537 (N.D. California June 2016).
 - US District Court looks to California trade secret statutes and California case law to interpret.

Trade Secrets Statutes

State-specific Example: Illinois

Illinois has adopted the Illinois Trade Secrets Act (765 ILCS 1065/et. seq.). Illinois does not have a criminal statute specifically regarding trade secrets.

Significant Differences Between Adopted Version and Model UTSA

ITSA Provides Broader Protection

- expands the UTSA's definition of a trade secret to include:
 - Drawings.
 - Financial data.
 - Technical or non-technical data.
 - Lists of actual or potential customers or suppliers.

765 ILCS 1065/2(d); UTSA § 1(4).

Under the ITSA, acquisition of trade secrets by improper means does not include:

- Reverse engineering.
- Independent development. 765 IL 1065/2(a).

Statute of Limitations

- The ITSA imposes a five-year statute of limitations, compared with the UTSA's three-year statute of limitations. 765 ILCS 1065/7; UTSA § 6.

Judicially Recognized Examples of Trade Secrets: Illinois

Trade Secrets

- **Computer software source codes.** *Computer Assoc. Int'l v. Quest Software, Inc.*, 333 F. Supp. 2d 688, 697 (N.D. Ill. 2004).
- **Financial data on profits.** *Brostron v. Warmann*, 546 N.E.2d 3, 5 (Ill. App. Ct. 1989).
- **Circuitry schematics.** *Televation Telecomm. Sys., Inc. v. Saindon*, 522 N.E.2d 1359, 1366 (Ill. App. Ct. 1988).
- **Research, design, and marketing plans; product formulations; production methods; and customer and supplier identities.** *Lucini Italia Co. v. Grappolini*, 2003 WL 1989605, at *16 (N.D. Ill. 2003).

NOT Trade Secrets

- **Customer identities and lists readily obtainable through:**
 - trade publications; or
 - association memberships and directories.

Sys. Dev. Servs., Inc. v. Haarmann, 907 N.E.2d 63, 76 (Ill. App. Ct. 2009); *Curtis 1000, Inc. v. Suess*, 843 F. Supp. 441, 451 (C.D. Ill. 1994).
- **Pricing information freely disclosed to customers**, as opposed to unique undisclosed formulas used to calculate price information. *Unisource Worldwide, Inc. v. Carrara*, 244 F. Supp. 2d 977, 987 (C.D. Ill. 2003).

Judicially Recognized Examples of Trade Secrets: California

Trade Secrets

- **Software.** *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511 (9th Cir. 1993).
- Proprietary processes, even if memorized. *Mattel, Inc. v. MGA Entm't*, 782 F. Supp. 2d 911, 989 (C.D. Cal. 2011)).
- **confidential username and passcode.** *Therapeutic Research Faculty v. NBTY, Inc.*, 488 F. Supp. 2d 991, 999-1000 (E.D. Cal. 2007).

In a lock manufacturer's suit against a former employee:

- Info about technical processes for making, finishing locks.
- Cost and pricing info unique to company not generally known in industry, including:
 - Pricing; profit margins; production costs;
 - promotional discounts; advertising allowances;
 - volume rebates; marketing concessions; and rebate incentives.
- A company's five-year strategic business plan. *Whyte*, 125 Cal. Rptr. 2d at 285-88.

NOT Trade Secrets

- Pricing and bidding methods that are only general methods of doing business.
- Commonly used industry formulas for setting prices.
- Business forms and procedures that are widely used in a particular industry.
- A company's computer software, such as diagnostic software and operating system, where the trade secrets are not identified with specificity.
- Marketing research only related to one prominent customer.
Whyte, 125 Cal. Rptr. 2d at 285-88.

Judicially Recognized Examples of Trade Secrets: New York

Trade Secrets

- **Customer renewal dates.** *Liberty Power Corp. v. Katz*, 2011 WL 256216, at *2 (E.D.N.Y. 2011).
- **Overall design of computer software**, even where the individual components are common knowledge in the programming industry. *Norbrook Labs.*, 297 F.Supp.2d at 483.
- **Design and technical specifications for products manufactured under registered patents.** 777388 *Ontario Ltd. V. Lencore Acoustics Corp.*, 105 F.Supp.2d 56, 64 (E.D.N.Y. 2000).

NOT Trade Secrets

- **Licensing agreements, acquisitions, advertising, and technical knowledge.** *EarthWeb, Inc.*, 71 F.Supp.2d at 314.
- **An employee's recollection of customer info** about the specific needs and business habits of particular customers. *Walter Karl, Inc. v. Wood*, 528 N.Y.S.2d 94 (2d Dep't 1988).
- **Marketing information and pricing data** use by a hotel supplier. *Marietta Corp. v. Fairhurst*, 754 N.Y.S.2d 62 (3d Dep't 2003).
- **Generalized knowledge of pricing strategy** where pricing is set individually for each project by a team of specialists developing solutions unique to each client. *IBM Corp. v. Visentin*, 2011 WL 672025, at *14-15 (S.D.N.Y. 2011).

Common Litigation Issues

- Customer Lists

- Factors often considered by courts:
 - Protected from disclosure;
 - Expensive to create;
 - Substantively detailed; and
 - Not publically available.

- Theoretical Ideas

- Factors often considered by courts:
 - Purely conceptual idea;
 - tested or developed; and
 - Amount of monetary investment made.

Legal Toolbox

Laws and Statutes

- Economic Espionage Act and DTSA
 - EEA provides criminal penalties
 - DTSA various civil remedies
- State Misappropriation Claims
 - “inevitable disclosure”
 - Reverse engineering
 - Generally known
- Breach of Contract
 - Confidentiality and non-disclosure provisions
- Tortious Interference with Contract
- Breach of Duty of Loyalty or Fiduciary Duty
- Risks of Litigation

Legal Toolbox

Critical Documents

- Confidentiality Agreements and Clauses
- Provision that admits injunctive relief is appropriate
- Comprehensive Confidentiality Policy
 - Handbooks and Employee Policies
- Identification of confidential information and admission that information constitutes a trade secret
- Non-Compete Agreements (not in CA)
 - Employers must meet high standards to enforce (i.e., IL consideration)
 - Cannot preclude employee's mobility
- Inventions provisions
- Choice of law provisions
- Non-Solicitation Agreements

Restrictive Covenants

- Not enforceable in California
- Reasonable restraint (time and geographic limits) and sufficient consideration
- Employers should consider additional consideration specifically for these covenants (i.e., education, a raise, additional PTO) (depends on jurisdiction)
- In Illinois, *Fifield* changed how employers viewed post-employment restrictive covenants. Mere employment is not adequate consideration unless for more than two years. Kentucky, North Carolina and Pennsylvania also require consideration beyond mere employment. *Fifield v. Premier Dealer Servs, Inc.*, 2013 IL App (1st) 120327.
- *Instant Tech* Case - former employer did not prove that there was a legitimate business interest to be protected (a tech-staffing firm with lots of turnover and no long term relationships with clients). Permanence of relationships and access to confidential information drove enforceability. *Instant Tech, LLC v. DeFazio*, 40 F. Supp 3d 989 (N.D. Ill 2014)

Computer Fraud and Abuse Act

- Criminal penalties may be imposed by the CFAA
 - Unauthorized access of another's computer
- Civil cause of action
 - Statute does not require data accessed be a trade secret, only that the information is valuable to the owner.
 - Circuit splits regarding use and unauthorized use
- Website Hacking
- Viruses and Attacks

Tips to Protect Employers from Claims of Misappropriation

- Ask potential hires for a copy of their former employment agreement and severance agreement; legal should review all post-employment restrictive covenants
- Affirmatively state in writing to new hires that no confidential or proprietary information from former employer shall be used or provided
- Applicants for hire should sign confidentiality agreements - this is often missed by employers and can be a problem

Adding to the Case: Reasonable Measures to Protect Information

- Mark information confidential
- Physical barriers including locks on doors, file cabinets and security protocols (security codes/ID for entry)
- Password protect files and computers
- Trade secret/confidentiality provision in employee handbooks, employment agreements, and visitor terms
- Identify persons with need to know; keep information secure from those that do not need to know
- Do not allow employees to copy information or take information home
- Consider contractors, visitors, and vendors - limit their access
- Develop policies and implement for all of the above

Practical Tips for Protecting Confidential Information and Trade Secrets Upon Termination of Employment

- Do not have IT review the employee's computer. Call your outside counsel first!
- Do not put departing employee's devices back in circulation
- Ensure return of property
- Notify clients
- Discontinue electronic access, passcodes, ID cards, etc
- Exit interview with reminders of post-employment responsibilities
- Using a forensic vendor (through your outside counsel), evaluate whether information could have been retrieved and misappropriated, files deleted or destroyed, etc.
- Conduct investigation of activities including social media, files sent to personal emails, use of thumb drives/devices
- Notify employee of post-employment obligations formally

Consult an attorney
familiar with the
intricacies of these issues
in your jurisdiction

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