

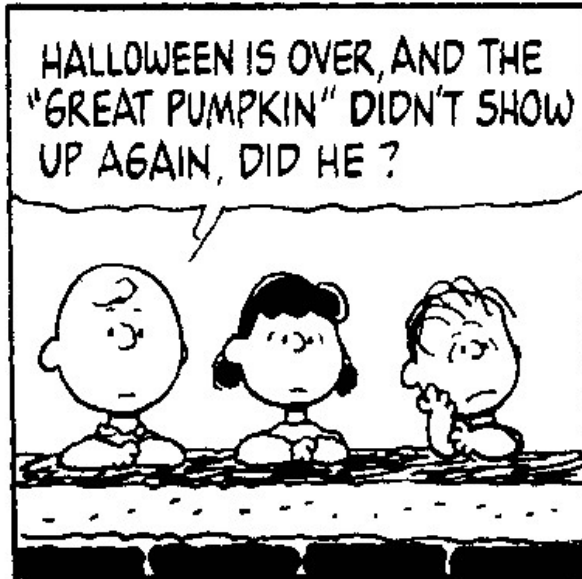
“To Catch a Thief: Strategies for Protecting Your Company’s Confidential Information”

Breakfast Briefing - November 1, 2005

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CLASSIC PEANUTS / *Charles M. Schulz*



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Confidential Information

- ◆ Types of confidential information: Formulas, financial, marketing, customer, personnel
- ◆ Information is not confidential just because you say it is
- ◆ To be legally protectable you must prove that:
 - ◆ It is not generally available elsewhere
 - ◆ You have taken steps to protect it; and
 - ◆ It has economic value to your competitors



How to Protect Confidential Information

- ◆ Handbooks and Corporate Conduct policies (in manner consistent with any agreements)
- ◆ Consider annual acknowledgement
- ◆ Offer letters should reference
- ◆ New employee orientation
- ◆ Cover in training
- ◆ Identify confidential information
- ◆ Limit access to confidential information
- ◆ Exit interviews
- ◆ Post-termination reminder letters

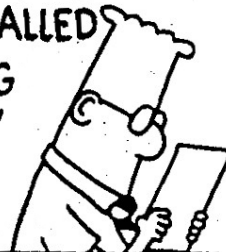


HERE'S THE REVISED
STANDARD EMPLOYMENT
AGREEMENT. SIGN IT
OR BE FIRED.



S. Adams E-mail: SCOTTADAMS@AOL.COM

"THIS AGREEMENT IS
BETWEEN THE COMPANY
(HEREAFTER REFERRED
TO AS 'THE ONLY COMPANY
THAT WOULD EVER HIRE
YOU') AND YOU (HERE-
AFTER CALLED
'PUDDING
HEAD')."



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IT SEEMS
TO HAVE
A BIT OF
ATTITUDE.



OUR LAWYERS
TURNED ON
US. I SUSPECT
RABIES.





NDA and Non-Compete Agreements: Legal Overview

- ◆ Laws vary from state to state
- ◆ Some areas of difference:
 - ◆ Non-competes are not enforceable in California
 - ◆ Continued at-will employment is sufficient consideration in some states, not in others
 - ◆ What courts regard as reasonable scope
 - ◆ Views on clauses restricting solicitation of former employees
 - ◆ Some courts rewrite overbroad clauses (blue pencil test); others will not (e.g., Georgia)
- ◆ **Practice Tip**: include choice of law clause, and know the law in the jurisdiction in question



NDA and Non-Compete Agreements: Washington Law

- ◆ Test in Washington:
 - ◆ Is the agreement enforceable as a contract?
 - ◆ Is it clear?
 - ◆ Is it supported by consideration?
 - ◆ Are the restrictions reasonably necessary to protect your company's legitimate business interests?
 - ◆ Are the restrictions reasonable in scope (or do they go beyond what is necessary)?
 - ◆ Would enforcement unduly harm the public?



Recent Cases

Microsoft Corporation v. Kai-Fu Lee and Google

- ◆ Lee was high level executive working to expand MS's operations in China
- ◆ Signed agreement stating that during employment and for one year period thereafter, he would not, among other things:
 - ◆ “. . . accept employment or engage in activities competitive with products, services or projects (including actual or demonstrably anticipated research or development) on which I worked or about which I learned confidential or proprietary information or trade secrets while employed by Microsoft...”



Recent Cases – *Microsoft v. Lee and Google*, cont.

- ◆ In 2005, Lee accepts offer to become VP of Engineering and President of Google China
- ◆ Microsoft sued to enforce non-compete
- ◆ Court grants TRO and preliminary injunction prohibiting Lee from engaging in substantive research and development activities:
 - ◆ Cites general WA rule that covenants not to compete upon termination are enforceable if reasonable
 - ◆ Finds Lee misled MS during sabbatical
 - ◆ Allows Lee to engage in certain recruiting activities, finds that relationships with students and academicians based on personal outreach are not protectable by MS



Recent Cases

Labriola v. Pollard Group, Inc., 152 Wn. 2d 828 (2004)

- ◆ 1997: Pollard hired Labriola as at-will employee
- ◆ 2002: Labriola signs 3 year non-compete, but remains at-will employee; did not receive any additional compensation
- ◆ Pollard learns that Labriola is seeking other work, fires him, and sends letter to competitor stating Pollard's intent to enforce non-compete
- ◆ Competitor decides not to hire Labriola, who sues Pollard



Recent Cases – *Labriola*, cont.

- ◆ Trial court rules in favor of Pollard
- ◆ Supreme Court reversed—key holdings:
 - ◆ Like all contracts, non-competes must be supported by consideration
 - ◆ Courts examine sufficiency, but not adequacy
 - ◆ If signed at time of hire, start of at-will employment is sufficient
 - ◆ Non-competes signed later must be supported by new consideration; continued at-will employment is not sufficient



Recent Cases – *Labriola*, cont.

- ◆ Independent consideration “may include increased wages, a promotion, a bonus, a fixed term of employment, or perhaps information or protected information”
- ◆ Court requires company to pay employee’s attorneys fees as prevailing party under RCW 4.84.330
 - ◆ Even though contract provided only that Employer could recover fees
 - ◆ Even though Court invalidated the contract
- ◆ **Practice Tip**: review any covenants entered into after hire to make sure they are valid



Recent Cases

Nike v. McCarthy, 379 F.3d 576 (9th Cir. 2004)

- ◆ McCarthy is offered promotion, begins performing new duties
- ◆ Nike sends letter confirming promotion, asking to sign non-compete
- ◆ Later, he accepts job with Reebok, Nike sues to enforce non-compete
- ◆ Under Oregon law, non-competes are enforceable only if signed upon hire or “bona fide advancement”
- ◆ 9th Circuit upholds enforcement, says agreement doesn’t need to be signed at first moment employee takes on new responsibilities



Recent Cases

Freiburger v. J-U-B Engineers, Inc., 141 Idaho 415 (Idaho Supreme Court 2005)

- ◆ Freiburger signs agreement at time of hire preventing him from taking any of J-U-B's clients when he left
- ◆ Freiburger goes to work for competitor, seeks declaratory judgment declaring agreement void



Recent Cases – *Freiburger*, cont.

- ◆ Idaho Supreme Court finds agreement overbroad, refuses to enforce because it:
 - ◆ Prevented F from working for any J-U-B clients, regardless of whether he had any contact
 - ◆ Prevented F from providing “any” service, regardless of whether J-U-B has competing service; and
 - ◆ Prevented F from serving “pending” clients regardless of whether he helped to foster relationships
- ◆ Court refused to rewrite covenant
- ◆ Practice Tip: agreements must be narrowly drafted; don’t overreach



Tips for Drafting Enforceable NDA and Non-Competes

- ◆ Keep it simple and clear: courts will resolve ambiguities in favor of employees
- ◆ Make sure the agreement is supported by consideration
 - ◆ For new hires, at will employment is sufficient
 - ◆ But be sure to disclose need for agreement as soon as possible—at minimum, offer letter should refer to non-compete as condition of employment
 - ◆ For existing employees, must have independent consideration



Tips for Drafting Enforceable NDA and Non-Compete

- ◆ Draft the agreement narrowly to protect your interests: don't overreach
 - ◆ What time limit and geographic scope is really necessary?
 - ◆ Which employees should be restricted?
 - ◆ What type of protection do you need:
 - ◆ For confidential information?
 - ◆ Non-solicitation of customers?
 - ◆ Non-solicitation of employees?



Tips for Drafting Enforceable NDA and Non-Compete

- ◆ Draft narrowly
 - ◆ Do you need to prohibit from working for competitor in any position or just some?
 - ◆ Do you need to prohibit from soliciting any of your customers or only those employee worked with?
 - ◆ Do you need to prohibit employee from working for competitor in any geographic area or just in the area where employee worked for you? Or where you do business?



Other Drafting Considerations

- ◆ Dealing with different jurisdictions—one size fits all or customized approach?
- ◆ Impact on recruiting or retention—will key employees be willing to sign or will your agreement negatively impact your hiring/retention?
- ◆ Industry practices:
 - ◆ Do your competitors use non-competes?
 - ◆ Do you regularly hire employees of your competitors?
 - ◆ Are you prepared to put the shoe on the other foot?



Other Drafting Considerations

- ◆ Severability clause
 - ◆ If you use, consider whether there are provisions which, if severed, would lead to a contract you would not want
- ◆ Attorney's fee clause
 - ◆ Remember that WA law provides reciprocity
 - ◆ Consider whether you are likely to be better off with or without the imposition of fees on the loser
- ◆ Liquidated damage clause?



Litigation to Protect Confidential Information

- ◆ Theories of recovery in addition to—or in the absence of—an agreement
 - ◆ Uniform Trade Secrets Act:
 - ◆ A trade secret is information which derives independent economic value from not being generally known or readily ascertainable by others who can obtain economic value from its disclosure, and is the subject of reasonable efforts to maintain secrecy
 - ◆ Information does not have to be written down to be protectable as trade secret (*Nowogrosi Ins., Inc., v. Rucker*)



Litigation to Protect Confidential Information

- ◆ Theories of recovery
 - ◆ Federal Economic Espionage Act of 1996:
similar to UTSA, but broader definition of trade secret
 - ◆ Computer Fraud and Abuse Act
 - ◆ State law theft includes undisclosed use or copy of records, data, trade secrets or computer programs
 - ◆ Breach of duty of loyalty and fiduciary duty



Litigation to Protect Confidential Information

- ◆ Doctrine of Inevitable Disclosure
 - ◆ Some courts have endorsed
Pepsico v. Redmond, 54 F.3d 1262 (1995)
 - ◆ Others have rejected
Whyte v. Schlage Lock Co., 101 Cal. App. 4th 1443 (2002)
 - ◆ Washington has neither adopted nor rejected the doctrine



Litigation to Protect Confidential Information

- ◆ Deciding when to sue
 - ◆ Is your agreement enforceable?
 - ◆ Is the agreement clear?
 - ◆ Is there sufficient consideration?
 - ◆ Is it reasonable?
 - ◆ Is the evidence clear of a breach?
 - ◆ What proof do you have?
 - ◆ Who can tell your story?
 - ◆ Will your current employees support your case?



Litigation to Protect Confidential Information

- ◆ Deciding when to sue
 - ◆ Which way will the equities weigh?
 - ◆ Has the employee been honest with you or not?
 - ◆ Have you said or done anything that could constitute a waiver?
 - ◆ Is there anything that will cause the judge to sympathize particularly with one side or the other?



Litigation to Protect Confidential Information

- ◆ Deciding when to sue
 - ◆ Do you have the stomach for the fight?
 - ◆ Are you willing to spend the time and money?
 - ◆ Are you at risk of having to disclose your own confidential information in order to prove your case? If so, are you willing to run that risk?
 - ◆ If you pick this fight, are you likely to win?
 - ◆ What are the consequences of losing?



Litigation Strategies

- ◆ Deciding when to litigate
 - ◆ Are there alternatives that would meet your needs?
 - ◆ Could you settle for something less than full compliance and obtain the protection you need?
 - ◆ How will this impact your public relations—win or lose?
 - ◆ Are there any pre-litigation steps you should take to strengthen your position?
 - ◆ Sending a cease and desist letter
 - ◆ Notifying the competitor/new employer



Litigation Strategies

- ◆ Other considerations
 - ◆ TRO or preliminary injunction?
 - ◆ Name individual only or employer company?
 - ◆ Choice of forum
 - ◆ Federal court versus state
 - ◆ Filing here versus elsewhere (e.g. in CA if trying to resist enforcement)
 - ◆ Seeking expedited discovery



Check List

- ◆ Are you clear about what you consider confidential?
- ◆ Do you consistently identify confidential information as such?
 - ◆ Is it stamped?
 - ◆ Password protected?
 - ◆ Locked?
 - ◆ Access limited?
- ◆ Do your written policies discuss use of confidential information?



Check List

- ◆ Are your policies covered in orientation? In training?
- ◆ Are employees required to acknowledge them in writing? Annually?
- ◆ Do you use written NDAs and/or non-compete agreements?
- ◆ Do your offer letters make it clear that signing such agreements and/or complying with your company policies is a condition of employment?
- ◆ Do all new employees receive and sign such agreements/policies at the time of hire?



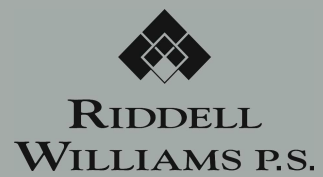
Check List

- ◆ Do you cover your policies in exit interviews?
- ◆ Do you provide a copy of signed agreements to employees at the time of termination and require them to sign acknowledging receipt?
- ◆ Do you send letters to departing employees reminding them of their confidentiality obligations?
- ◆ Are your agreements reasonable in scope and supported by sufficient consideration?



Check List

- ◆ Do you have a process for determining whether to enforce your agreements? Does it ensure that you make such decisions in a timely manner?
- ◆ Do your managers understand that they are not authorized to waive non-competes?
- ◆ Before initiating litigation, have you considered all of the pros and cons, including the time and money involved?
- ◆ Are you prepared to stay the course?
- ◆ Have you prepared for any PR issues?



Questions?

Please contact me any time with additional questions.

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