Employee Confidentiality, Trade Secrets, Inventions and Non-Compete Strategies in a Digital Age

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In today’s highly digitized world, an employee can leave the office with a small flash drive containing thousands of files, including trade secrets and other valuable business information.

How do companies protect themselves from this happening?

We will look at the practical steps companies can take to prevent this occurrence – namely through the creation of an effective employee intellectual property and non-compete agreement program.
Legal Framework

• **Trade Secret**: a formula, pattern, compilation, program, device, method, technique, or process that:
  (i) Has independent economic value because it is not generally known to the public/competitors; and
  (ii) Is the subject of reasonable efforts to maintain its secrecy

• **Inventions Assignment Agreement**: a contract that conveys future employee rights to employer
  ➢ Trade secrets, inventions, copyrights, etc.

• **Confidentiality/Non-Disclosure Agreement**: a contract that seeks to protect trade secrets/other confidential information

• **Non-compete Agreement**: a contract that seeks to protect legitimate business interests:
  ➢ Long-term customer relationships
  ➢ Confidential information/trade secrets
What Makes a Trade Secret Different?

Easier to Create Compared to Other Forms of IP

Only two requirements:

1. Derives independent economic value, actual or potential, from not being generally known …; and

2. Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

Differs from Patents, Trademarks and Copyrights

- No government agency review
- Not defined in writing

And Easier to Lose Compared to Other Forms of IP

Mere disclosure to someone without a duty to maintain confidentiality destroys protected status
Common Types of Trade Secrets

- Customer lists, preferences, needs
- Technical specifications, drawings & blueprints
- Employee identities or compensation information
- Non-public financial information (such as profit margins and material costs)
- Business strategies
- *Almost anything that a company does not want its competitors to know – and which has value from being kept confidential, or which a competitor would find valuable to learn*
Essentials for an Effective Employee IP Agreement
Employee IP Protection Agreement

Confidentiality/Non-Disclosure Agreements

• While many states otherwise have claims for employee misconduct, employee’s signature on a contract specifying the types of information considered proprietary / confidential adds a contract claim and eliminates ambiguity

• Binding during - and after - employment

• Clarifies employee does not own trade secrets/inventions

• Definition of confidential / proprietary / trade secret info should be as specific as possible

• Confirms expectations that any such information must be returned upon separation
Invention Assignment Agreements

Does the Company Own the Trade Secret/Invention?

- Who owns the invention?
  - Employee who owns information can use/discard it
  - Generally, inventor has exclusive ownership
  - Work for hire
    - Copyright law requires separate contract for independent contractors
  - Independent development by employee
    - During work hours, unrelated to business
      » Nonexclusive, irrevocable license to use
  - Contractual assignment
Critical Elements of Non-Compete Agreement

Four General Requirements:

1. Seeks to protect legitimate business interest
   - Long-term customer relationships
   - Goodwill
   - Trade secrets
   - Other confidential information

2. Non-compete reasonably related to legitimate business interest in terms of time, geographical area, and scope of the prescribed activity

3. Consideration in exchange for non-compete
   - Offer of employment / continued employment
   - Promotion/change in job duties
   - State law differences

4. Non-compete must not run counter to public policy of the state in which it is enforced
Non-competes: critical tips

- Know your jurisdiction
  - Do state laws/court opinions restrict scope/enforcement (eg., NY, MD, Cal, Tex)
  - Choice of jurisdiction v. public policy
- Must tailor to protect legitimate business interests
- Reasonable in time, geography, and scope of proscribed activity
- Assignment Issues
Other Critical Steps to Secure Company Intellectual Property and Good Will
Inadvertent Means of Disclosure

• Websites!
• Trade shows and professional gatherings
• Articles and other publications
• Job interviews
• Customers (consider nondisclosure agreement)
• Vendors (ditto)
• Consultants (nondisclosure and assignment of proprietary rights)
• Studies or surveys
Secure Data Bases

- **Limited Employee Access**
  - Restrict disclosure to those with a need to know
  - Require all employees to sign non-disclosure agreement ("NDA") before making any disclosure
  - Store sensitive documents and communications appropriately
    - Paper documents kept in secure file or room that can only be accessed with authorization
    - Electronic information should be encrypted and maintained on company servers to which access is restricted
    - Enforce a policy preventing employees from maintaining sensitive information on home computers, notebook computers, mobile devices, etc.
    - Consider implementing tracking software that alerts IT in the event an employee copies an unusual amount of data from a central server

- **Labeling**
  - Mark sensitive documents or communications as “CONFIDENTIAL”

- **Inventory signoffs/exit Interviews**
  - Return of property
  - Written reaffirmation of obligations
Preventative Employment Practices

Employment Policies/Training

- Employee Handbook
- Annual reminders
- Incorporate into training
- “Pop up” reminders when employees sign onto computer system
- IT support to monitor “suspicious” activity
Preventative Employment Practices

- Exit Processes
  - Exit interview – opportunity to reiterate ongoing obligations
  - Get details on new position to determine risk
  - Return of property – reiterate what that means
  - Letter to employee reiterating obligations
  - Letter to new employer advising of restrictive covenants and expectations there will be no interference with the former employee’s obligations
Questions?

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