

Welcome!

Protecting Company Relationships and Information Upon an Employee Departure

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TOOLS

- Noncompetition Agreement
- Information Security
- Statutory Ban on Misappropriating Trade Secrets

DO YOU HAVE CONSIDERATION

- Signed at employment
- Signed after employment for additional consideration
- Raise, one time payment, term
- Unvested stock options don't count

PUBLIC POLICY

- You can't just go around impairing citizens' employment prospects

Rose v. Vulcan Materials, 282 NC 643 (1973)

“An individual’s voluntary contractual restraint on his right to carry on a trade or calling is *prima facie* illegal and must be shown to be reasonable by the party seeking to enforce it.”

NORTH STAR:

- A covenant not to compete may be no broader than reasonably necessary to protect the legitimate business interest of the employer.

NONCOMPETITION AGREEMENT

- Burden is on the employer to show reasonableness:

What is a Legitimate Business Interest?

- Relationships
- Confidential Information

What is NOT a Legitimate Business Interest?

- Employee retention
- Avoiding competition

MEASURES OF REASONABLENESS:

- Duration
- Geographic scope
- Type of conduct prohibited

DURATION

- More than five years is off limits
- More than two years is suspect
- How long must you keep the employee out before the information and relationships are 'stale'?

GEOGRAPHY

- Where is the company located?
- Where could the employee effectively use company relationships and information to the detriment of the company?
- Political unit v. “area around”
- The whole world?

CUSTOMER RESTRICTIONS

- May replace geography
- “All” customers probably too broad
- Target customers employee dealt with
- “Potential” customers not typically protected
- Beware effect of reach-back period on duration

NONCOMPETITION AGREEMENT

- General restrictions against working for a competitor will not be enforced
- Limit restrictions to:
 - Services the same as or materially similar to those engaged in on behalf of company
 - Activities that would reasonably be presumed to use or rely upon information confidential to the company.

WHO CAN ENFORCE?

- Generally only the employing entity
- Including “affiliates” and “subsidiaries” is suspect
- Are they in the same business?
- Did employee have access to their customers/confidential information?

What Happens If Your Agreement is Overly Broad?

- Not enforced regardless of actual conduct of former employee
- Exception: blue-penciling
- Consequence: “Cascading” terms

What happens.....

- When there is a transition of ownership of the employer
- Stock sale: Acquiring party steps into the shoes of the acquired
- Asset sale: Acquiring party may be assignee of the noncompete agreement, but it is triggered as of the date of the assignment.

NONCOMPETITION AGREEMENT

- Courts are less hostile to nonsolicitation provisions
- Should be limited to customers/clients with whom employee had contacts
- Exception: relevant confidential information

“I didn’t solicit. He called me”

- Remedy:
 - Prohibit ‘providing services to’
 - Prohibit ‘taking action to induce customer to cease doing business with employer or reduce business with employer’

NONCOMPETITION AGREEMENT

- Cannot prohibit action taken “directly or indirectly”
- Instead: Will not provide material assistance to another person or entity to do that which employee is prohibited from doing.

NONCOMPETITION AGREEMENT

- Consider restrictions against poaching of employees
- Trend is to prohibit not just solicitation but hiring
- Enforceability has not been tested in NC

Relevant to your employee hiring and intake

- Find out if a new hire might be a party to a noncompete or nonsolicit with a prior employer
- State in writing that company does not want the new employee to bring or use any information that is confidential or proprietary to any other entity and have new employee confirm agreement.

INFORMATION SECURITY

- If they don't have it they can't take it
- Protection is essential to trade secret claim and to credibility

PROTECT

- Server and devices
- Specific categories of information as appropriate
- Consider disabling USB access
- Consider carefully “BYOD” policy
 - Mandate company purging of personal devices upon separation

CONSIDER

- Forensic assessment of data transfer in suspicious situations
- Preservation of data upon separation
 - Forensic copy of the hard drive

MISAPPROPRIATION OF TRADE SECRETS

- The owner of a trade secret shall have a civil action for misappropriation of the trade secret.
 - N.C. Gen Stats. § 66-153

A TRADE SECRET IS

- Business of technical information that derives actual or potential value from not being generally known or readily ascertainable from reverse engineering by persons who can obtain economic value from its disclosure or use.
 - N.C. Gen. Stats. § 66-152(3)(a)

AND

- Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy
 - N.C. Gen. Stat. 66-152(3)(6)

ASSESS WHAT NEEDS PROTECTION

- Information audit
- Would we care if this information were in the hands of our competitors?
- Why and how much?

HOW TO PROTECT

- Information security methods
- Confidentiality agreements
- “Need to know”
- NDA, even with your customers

CONSIDER IT GONE

- If you let the information out without protection, consider it gone

CONTRACTS WITH A PUBLIC ENTITY

- Information may be subject to disclosure per the public records act

PUBLIC RECORDS ACT EXCEPTION

- Nothing in this Chapter shall be construed to require or authorize a public agency or its subdivisions to disclose any information that:
 - Constitutes a trade secret per G.S. 66-152(3)
 - Is the property of a private person
 - Is disclosed in conjunction with performing a public contract
 - Is designated confidential at the time of disclosure

N.C. Gen. Stat. §132-1.2

Wilmington Star News v. New Hanover Regional Medical Center

- Court ordered release of confidential pricing information between a health maintenance organization and a public hospital
- Even though the information qualified as a trade secret, it did not belong *just* to the private entity

CUSTOMER LISTS

- Customer lists are not automatically a trade secret
- Is your customer base obvious and their assess information public?
- Does your customer list contain sensitive data in addition to listing customers and contacts?
 - Purchasing history
 - Nonpublic pricing information

REMEDIES

- Injunction for life of trade secret plus additional period to eliminate unequitable advantage
- Damages measured by GREATER OF economic loss or unjust enrichment
- Punitive damages and attorneys' fees if misappropriation is willful and malicious
- Treble damages pursuant to N.C. Gen Stats §75-1.1

ENFORCEMENT

- The exit interview
- The cease and desist letter
- Temporary Restraining Order
- Preliminary Injunction

THE EXIT INTERVIEW

- Obtain information about employee's next steps
- Secure return of all company devices and information
- Remind employee of post-employment obligations

THE CEASE AND DESIST LETTER

- Communications with subsequent employer
 - They aren't liable for interfering with your contract if they don't know about it
 - An acceptable resolution may be within reach
 - Placement of employee outside competitive sphere
 - Reduced duration or scope of noncompete
 - Confirmation of non-solicitation of customers

TEMPORARY RESTRAINING ORDER

- File verified complaint
- Consider supporting affidavits
- Must show immediate and irreparable harm will result to the applicant in the absence of granting a TRO
- May be given *ex parte* if there is a good faith effort to provide notice
- Valid upon service for maximum of 10 days, may be extended one time
- Requires posting of bond

PRELIMINARY INJUNCTION

- Must demonstrate likelihood of prevailing on the merits
- Must show reasonable apprehension of irreparable loss and that the injunction is necessary to preserve applicants rights during the litigation
- Expedited discovery and full briefing
- Requires posting of bond

What can you do to assist with enforcement?

- Have all relevant documents available
 - All agreements entered into with employee
 - All policies relevant to post employment conduct
 - Employee's employment file
 - All communications with employee relevant to separation

What can you do to assist (con't)

- Be familiar with employee's job duties with the company
- Identify the documents to which employee had access
- Be able to describe why the information is important to the company
- Identify the steps the company has taken to protect the information

What can you do to assist (con't)

- Have persons knowledgeable about employee's role with the company and post-employment activities available to be interviewed and provide affidavits
- Understand the company's reasonable basis for the restrictions in the restrictive covenants
- Have contact information of the employee for correspondence/service of process

What can you do to assist (con't)

- Identify subsequent employer for correspondence/service of process
- Consider potential defenses
- Will employee take the position that employer has breached

What can you do to assist (con't)

- Manage employee's electronic devices to preserve evidentiary status
- Refrain from internal communications, especially email, about employee or departure except with counsel
- Retain documents

TEN SUGGESTIONS

1. Understand the nature and scope of the information you are trying to protect
2. Secure the information in a manner that is appropriate to its value and significance
3. Don't neglect electronic safeguards, passwords, limited access, need to know
4. Obtain noncompete and confidentiality agreements
5. Consider security implications of work at home or *byod* policies

TEN SUGGESTIONS (con't)

6. Consider carefully the security protections in any off-site (Cloud) storage systems
7. Have new hires acknowledge in writing your expectation that they will not use confidential information of others
8. Use nondisclosure agreements with customers and vendors where appropriate
9. Conduct a comprehensive exit interview, collect all company electronic devices
10. If you expect misappropriation by a departing employee, have a forensic image made of all electronic devices