EMPLOYMENT, LABOR & WORKFORCE MANAGEMENT

EPSTEIN BECKER GREEN

TAKE 5 VIEWS YOU CAN USE

TRADE SECRETS & EMPLOYEE MOBILITY

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Keeping Pace in the Fast-Moving World of Trade Secrets and Employee Mobility

In managing workforces, particularly when addressing employee turnover, employers often find themselves facing issues regarding how best to safeguard their confidential business information and how to protect their relationships with clients and employees. In recent years, the legal landscape underlying these issues has been evolving, as lawmakers and judges grapple with the tension in these matters between protection and free competition.

For the latest news and insights concerning trade secret and employee mobility issues and trends, please visit and subscribe to Epstein Becker Green's Trade Secrets & Employee Mobility Blog.

In this *Take 5*, we examine recent developments, both in the courts and legislative bodies, concerning trade secrets and employee mobility:

1. **Antitrust Action Against No-Poaching Agreements: The Trump Administration Continues Obama Policy**

2. **Drafting "Garden Leave" Clauses in Employment Agreements**

3. **Will Insurance Cover a Company Sued in a Trade Secrets Lawsuit?**

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5. **New and Proposed State Statutes and Federal Legislation Limiting Non-Compete Agreements**

1. Antitrust Action Against No-Poaching Agreements: The Trump Administration Continues Obama Policy

By David J. Clark

On October 20, 2016—approximately three weeks before Donald Trump won the U.S. presidential election—the U.S. Department of Justice ("DOJ") and the Federal Trade Commission ("FTC") issued a remarkable document entitled "Antitrust Guidance for Human Resources Professionals" ("Antitrust Guidance"), which outlined an aggressive policy promising to investigate and punish employers (including individual human resources employees) that enter into unlawful agreements concerning the recruitment or retention of employees. As stated in the Antitrust Guidance, "[a]n agreement among competing employers to limit or fix the terms of employment for potential hires may violate the antitrust laws if the agreement constrains individual firm decision-making with regard to wages, salaries or benefits; terms of employment; or even job opportunities." Under this policy, even the sharing by one company with another (for example, in a conversation between human resources employees at an industry conference) of sensitive information regarding the terms and conditions of employment at a company, which could be used to facilitate wage matching, could result in unwanted government attention for one or both of the companies.

The Antitrust Guidance was part of a broader effort by the Obama administration in 2016 to stoke competition and wage growth across the economy. This initiative was kicked off by President Obama in April 2016 with Executive Order 13725, which directed government agencies to increase competition to benefit consumers, workers, and entrepreneurs. The Antitrust Guidance's policy statement was the DOJ and FTC's response to that executive order. A mere five days after the Antitrust Guidance was issued, the Obama White House took the unusual step of issuing a "Call to Action" to states to act to reduce the misuse of non-competition agreements.

But then came the 2016 presidential election. For more than a year thereafter, a question on the minds of many practitioners was whether the Antitrust Guidance and its policy would remain a priority for the DOJ and FTC under President Trump. Those agencies had not issued public pronouncements, and there was uncertainty over whether conduct such as wage-fixing and entering into no-poaching agreements would continue to warrant serious civil or criminal scrutiny. Would the new administration continue the Obama administration's Antitrust Guidance initiative or would it lean toward a more laissez-faire, "do not interfere with corporate management" philosophy?

We may now have the answer. The Trump administration has voiced support of this Obama-era policy. On January 19, 2018, the U.S. Assistant Attorney General for the DOJ's Antitrust Division, Makan Delrahim, expressed his surprise at the number of no-poaching agreement investigations underway at the DOJ, and he remarked that if employers have engaged in no-poaching or wage-fixing agreements since the issuance of the Antitrust Guidance, their actions will be treated as criminal. He noted that the

Antitrust Division has “been very active” in reviewing potential violations, and that, “[i]n the coming couple of months, you will see some announcements, and to be honest with you, I've been shocked about how many of these there are, but they’re real.”

Employers and practitioners should stay tuned for these announcements from the Antitrust Division.

2. Drafting “Garden Leave” Clauses in Employment Agreements

By Peter A. Steinmeyer and Lauri F. Rasnick

In recent years, the degree of judicial scrutiny of traditional non-compete agreements has grown more intense. Because of this, employers are increasingly looking for alternatives to traditional non-compete agreements to help protect their sensitive information and customer relationships. One such alternative that is gaining rapid favor is the usage of “garden leave” clauses in employment agreements, rather than traditional non-compete agreements.

Characteristics of a Garden Leave Clause

Under a typical garden leave clause, an employee is required to give advance notice of his or her resignation (e.g., 30 – 90 days’ advance notice), during which time the employee remains an employee and continues to be paid his or her salary. With some garden leave provisions, the employer has a mirror-image obligation not to terminate an employee without giving the same period of advance notice.

During this notice of resignation/termination period, the employee is generally not required to perform any services (i.e., he or she is free to “tend his or her garden”) and his or her access to staff and customers or clients is generally cut off. Yet, because he or she remains an employee and continues to draw a salary, he or she also continues to owe a duty of loyalty to his or her employer and, therefore, may not join or assist a competitor during the garden leave period.

Drafting Considerations for Garden Leave Provisions

Garden leave provisions may be included in all sorts of agreements between employers and employees, such as offer letters, employment agreements, and stock option plans.

There are a number of considerations in drafting a garden leave provision.

First, since the garden leave period is paid and requires a continuing presence with an employer, the employer needs to narrow down the individuals who will be subject to it.

Second, an employer must determine the length of the garden leave period. Periods of 90 days or less are the most common, although some garden leave periods run up to six months. It is common for employers to have incrementally longer garden leave periods for persons with greater responsibility (e.g., 30 days for a vice president, 60 days for a director, and 90 days for a managing director).

Third, an employer will need to decide the compensation provided during the garden leave period. Oftentimes during a garden leave period, an employee will continue to receive his or her regular salary and benefits but will cease eligibility for bonuses or other incentive pay. If this is the case, the employee who receives the substantial amount of his or her pay through bonuses may claim that he or she is not receiving adequate consideration and that such a garden leave should not be enforced. Employers may also choose to limit or decrease certain fringe benefits during the garden leave, including, but not limited to, the accrual of paid time off. Such a modification of benefits during the leave will likely have a negligible impact on the potential enforceability of the provision. The more complicated situations arise for pure commissioned employees. In such circumstances, employers may want to set a formula to pay compensation to the employees during the leave but must be mindful to comply with the applicable commission agreement and not to run afoul of any applicable wage and hour laws.

Fourth, an employer can decide whether or not to retain discretion to shorten or waive the garden leave period at the time the garden leave would begin or during it and whether or not the employee will be compensated for any waived period. If the employer desires to retain such discretion, the provision should explicitly note the employer's discretion and the method of providing notice of a shortening or waiver.

Finally, a garden leave provision should reserve the right of the employer to exclude the employee from performing work. Such a provision may also restrict access to the workplace, email and other electronic communication systems, clients, and employer information.

Conclusion

While garden leave clauses are not a panacea, they are a potential tool that employers can use to protect their confidential information and customer relationships.

3. Will Insurance Cover a Company Sued in a Trade Secrets Lawsuit?

By David J. Clark

Insurance coverage is not something that readily comes to mind when thinking about trade secret misappropriation. That being said, when a client is sued for alleged trade secret misappropriation, defense counsel should consider instructing the client to notify its insurance carrier and inquire as to whether there is coverage for some or all of the claims.

In a 2017 decision issued by Judge Robert M. Dow, Jr., in the U.S. District Court for the Northern District of Illinois, *Sentinel Insurance Company, LTD v. Yorktown Industries,* *Inc.*, 2017 U.S. Dist. LEXIS 14439, 2017 WL 446044 (N.D. Ill. Feb. 2, 2017), Yorktown—the defendant in what seems to have been a garden-variety trade secrets misappropriation case—demanded that its insurance carrier defend and indemnify it under its insurance policies. The carrier denied coverage and any duty to defend, and then brought a declaratory judgment action seeking vindication for its position.

In the underlying lawsuit for which coverage and a defense was requested, Yorktown was sued for violation of the Uniform Trade Secrets Act, intentional interference with contractual relations, intentional interference with prospective business advantage, unfair competition, and civil conspiracy (i.e., claims commonly seen in these types of cases).

Yorktown requested indemnification under an insurance policy, which provided coverage for claims for, among other things, "personal and advertising injury." The policy defined "advertising injury" as "copying in your 'advertisement' or on 'your web site' a person's or organization's 'advertising idea' or style of 'advertisement.'" Yorktown's argument seeking coverage under the policy was premised on the notion that the trade secret misappropriation claim was, in essence, an accusation of stealing another's "advertising idea."

Judge Dow made short work of this claim, holding that Yorktown had merely been accused of stealing a customer list and sales information and wrongly using that information. He held that this alleged misconduct did not amount to an allegation that Yorktown copied an "advertising idea" or copied trade secrets in an advertisement. Additionally, among other things, Judge Dow noted that the policy contained an express exclusion for claims predicated on the alleged misappropriation of a trade secret.

In trade secret disputes, a common instance in which there may be coverage is where a breach of fiduciary duty is alleged, or where there is a claim against a director or officer and a "D & O" policy is implicated. In the *Yorktown* case, there was no mention of such claims.

Conclusion

While Yorktown came up short before Judge Dow, the prudent course of action in every trade secrets case is to notify the carrier and inquire about coverage. Because insurance policies (and lawsuits) come in all sizes and shapes, sometimes there is coverage; sometimes there isn't. Only by notifying the insurer will the client find out whether there is coverage.

4. Defend Trade Secrets Act Developments in 2017

By James P. Flynn

In 2017, there were several cases worth noting under the federal Defend Trade Secrets Act ("DTSA"). These cases addressed (i) time periods covered by the DTSA, (ii) pleading requirements under the DTSA, and (iii) standards for obtaining *ex parte* seizure orders under the DTSA. We will discuss these three issues in turn.

Timing

The DTSA became effective May 11, 2016, which raised the questions of if, when, and how it might apply to pre-May 11, 2016, conduct. Simply stated, defendants may have a "timing defense" when the alleged misappropriation occurred before the DTSA's enactment (May 11, 2016). *See Cave Consulting Grp., Inc. v. Truven Health Analytics Inc.*, 2017 U.S. Dist. LEXIS 62109 (N.D. Cal. Apr. 24, 2017). As the *Cave Consulting* court noted,

> [W]ithout facts about when post-enactment use occurred and whether the information disclosed was new or somehow different from the prior misappropriation, plaintiff has failed to state a claim under the DTSA.[1]

The court, however, gave the plaintiff the opportunity to amend, while pointing out that "[t]he Act's text contemplates three theories of liability: (1) acquisition, (2) disclosure, or (3) use . . ." and that "[n]othing suggests that the DTSA forecloses a use-based theory simply because the trade secret being used was misappropriated before DTSA's enactment."[2] Thus, there is no "timing" defense when the plaintiff can show that misappropriation has continued to (or likely will) occur on a date after the statute's May 11, 2016, effective date. *Brand Energy & Infrastructure Sev. v. Irex Contracting Grp.*, 2017 U.S. Dist. LEXIS 43497 (E.D. Pa. March 23, 2017) (a plaintiff is allowed to pursue a DTSA claim because the amended complaint alleged multiple *uses* of trade secrets that occurred after the DTSA was enacted). Courts' focusing on the timing of alleged misappropriations continues into 2018. Indeed, in *Ultradent Prods. v. Spectrum Sols., LLC,* 2018 U.S. Dist. LEXIS 3858 (D.Utah Jan. 8, 2018), the court dismissed the complaint precisely because "[n]one of the allegations against Spectrum indicate[d] when the alleged misappropriation occurred," leaving one to speculate as to whether the misappropriations were alleged to have occurred after the effective date of the statute.

Pleading

Under the now well-known *Twombly*/*Iqbal* standard, applicable on motions to dismiss under Federal Rules of Civil Procedure 12(b)(6), DTSA plaintiffs must adequately allege, among other requirements, that they took reasonable steps to maintain the secrecy of protected information. In *Aggreko, LLC v. Barreto*, 2017 U.S. Dist. LEXIS 35573 (D. N. Dak. Mar. 13, 2017), the plaintiff alleged that it required employees to sign a confidentiality agreement and that information was not disseminated outside the workplace. That was deemed sufficient to withstand a motion to dismiss under Rule 12(b)(6). But in *Raben Tire Co. v. Dennis McFarland*, 2017 U.S. Dist. LEXIS 26051

[1] 2017 U.S. Dist. LEXIS 62109, at 13.
[2] *Id.* at *9.

(W.D. Ky. Feb. 24, 2017), the plaintiff failed to allege that employees were required to sign confidentiality agreements or to allege any other indicia of reasonable steps to maintain secrecy. This led to a dismissal *with prejudice*.

Likewise, to avoid dismissal, a plaintiff must adequately allege improper acquisition and/or improper disclosure or use and must do so through more than conclusory allegations or labels. *See Prominence Advisors, Inc. v. Dalton*, 2017 U.S. Dist. LEXIS 207617 (N.D. Ill. Dec. 18, 2017) (dismissing the DTSA count).

***Ex Parte* Seizures**

Finally, and perhaps most importantly, courts have limited the applicability of the DTSA seizure mechanism. That puts a damper on some of the initial enthusiasm that trade secret holders held for the possibility of expanded enforcement rights under the DTSA. For example, courts in California and Indiana each held that statutory seizure orders are only available in extreme circumstances and only when traditional injunctions or temporary restraining orders ("TROs") sought under Rule 65 of the Federal Rules of Civil Procedure would be inadequate. *See OOO Brunswick Rail Mgmt. V. Sultanov*, 2017 U.S. Dist. LEXIS 2343 (N.D. Cal. Jan. 6, 2017) ("A court may issue a seizure order only if, among other requirements, an order under Fed. R. Civ. P. 65 or another form of equitable relief would be inadequate."), and *Magnesita Refractories Co. v. Mishra*, 2017 U.S. Dist. LEXIS 10204 (N.D. Ind. Jan. 25, 2017) (traditional Rule 65 TROs are still the preferred means of ordering a seizure of property in DTSA cases; "[o]bviously, in this case, Rule 65 did the trick."). Rather than making seizures easier and more likely, these cases suggest that the standards for a DTSA seizure order are more strenuous than those under Rule 65.

5. New and Proposed State Statutes and Federal Legislation Limiting Non-Compete Agreements

By David S. Poppick

Employers, take note: Several states are proposing statutes to regulate and limit the use of non-competition agreements for low-wage earners, or abolish the use of them almost entirely, and to impose risks of liability on employers that require employees to sign non-competition agreements with overreaching and unenforceable terms. Similar federal legislation has also been introduced to reform the misuse of non-compete agreements.

The governor of Illinois has proposed legislation that would void any contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind, other than non-compete agreements signed by employees earning $1 million or more per year and non-competes signed in conjunction with the sale of a business.

Maryland and New York have proposed legislation banning non-competes for low-wage workers:

- Maryland (MD HB506) would void non-competes with employees who earn less than $15 per hour or $31,200 per year.

- New York Senate Bill S4610 would ban non-competes if an employee's wages are under the New York State salary threshold of $40,560 per year and would require those employees to be paid on an hourly basis and receive overtime pay. Also, New York would ban non-competes for low-wage workers in New York City ($13 per hour for New York City employers with 11 or more employees, and $12 per hour for New York City employers with 10 or fewer employees).

Meanwhile, Nevada enacted statute A.B.N. 276, which provides that non-compete agreements are unenforceable unless they (i) are supported by "valuable consideration" (not defined), (ii) do not impose any restraint that is greater than required for the employer's protection, (iii) do not impose any undue hardship on the employee, and (iv) impose restrictions that are appropriate relative to consideration provided. Also, the statute requires judges to "blue pencil" overbroad non-competes to render them enforceable. Finally, non-competes are only enforceable in connection with reductions in force, reorganizations, or restructurings while the employer is paying the employee's salary, benefits, or equivalent (including severance).

Washington State H.B. 1967 (pending) proposes legislation that would require that:

- all terms of non-compete agreements be disclosed to prospective employees in writing no later than the date on which the prospective employee accepts the employment offer;

- employers provide independent consideration when a non-compete agreement is extended after commencement of employment; and

- if an employer requires an employee to sign a non-compete that it knows contains unenforceable provisions, the employee can recover actual damages of $5,000 and attorneys' fees.

Massachusetts, Missouri, New Hampshire, Oregon, Pennsylvania, and Vermont have also recently introduced bills to limit non-competes. California, North Dakota, and Oklahoma already prohibit employee non-competes in nearly all circumstances.

Two federal bills have been introduced but are not yet law: LADDER Act H.R. 2873 and MOVE Act S.1504.

The LADDER Act (Limiting the Ability to Demand Detrimental Employment Restrictions Act) would (i) prohibit employers from entering into non-compete covenants with low-wage employees engaged in commerce or in the production of goods for commerce, and (ii) require an employer of such employees to post notice of that prohibition in a conspicuous place on the employer's premises.

The LADDER Act defines “low-wage employee” as an employee who earns less than the greater of $15 per hour, or the state or local minimum wage. In order for an employer to require an employee who is not a low-wage employee to enter into such a covenant, the employer would have to disclose the requirement for entering into the covenant before hiring the employee.

The LADDER Act would also direct the Secretary of Labor to (i) enforce a complaint of a violation of this Act in the same manner as a complaint of a violation of the Fair Labor Standards Act of 1938, and (ii) impose a civil fine on any employer that violates this Act.

The MOVE Act (Mobility and Opportunity for Vulnerable Employees) provides the same terms as the LADDER Act, except that it defines “low-wage employee” as an employee who earns less than (i) $15 per hour, (ii) the state or local minimum wage, or (iii) $31,200 per year.

Conclusion

Overall, the proposed and new state and federal laws seek, in varying degrees, to reform and limit non-competes, particularly for low-wage earners, and also to define with greater specificity what employers must include in non-competes for them to be enforceable without overreaching. Given the degree of legislative activity in this area, employers should closely monitor statutory developments and regularly review form non-compete agreements to ensure that they are compliant with current law in all jurisdictions where they are used.

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For additional information about the issues discussed above, please contact the Epstein Becker Green attorney who regularly handles your legal matters, or any of the authors of this *Take 5:*

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