204 The Corporate "Brain Drain": Technology and the Employment Relationship

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Faculty Biographies

Mary A. Bedikian, Esq.

Mary A. Bedikian is vice president of the American Arbitration Association's (AAA) Detroit and Minneapolis Regional Offices. These offices provide arbitration and mediation services, education and training programs, election services, and ADR consulting.

A frequent lecturer, Ms. Bedikian makes presentations about ADR to hundreds of neutrals and attorneys each year. In addition to her lecture activities, Ms. Bedikian is well published. In 1988, she won First Prize in the Sixth Annual National Labor Law Writing Competition sponsored by the Detroit College of Law for "Riding on the Horns of a Dilemma: The Law of Contract v. Public Policy in the Enforcement of Labor Arbitral Awards."

A member of the adjunct faculty at the University of Detroit Mercy School of Law since 1989, Ms. Bedikian developed a model course in ADR which she currently teaches at both the University of Detroit and Wayne State University Law Schools. Ms. Bedikian serves as a volunteer mediator for the 46th District Court in Southfield, Michigan and is a member of the *pro per* employment panel in the United States District Court.

She is a member of the State Bar of Michigan, the ABA, the Federal Bar Association, the Oakland County Bar Association, and the Armenian Bar Association. She is the former chair of the State Bar Section on Alternative Methods of Dispute Resolution.

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Todd B. Carver is an assistant law vice president and senior in-house legal counsel for Dayton, Ohio-based NCR Corporation. NCR is a $6 billion dollar global computer, software, database, automated teller machine, automated retailer point-of-sale/bar-code scanner system, and hi-tech professional services company, formerly part of AT&T. He previously served as in-house litigation counsel for NCR and has been employed by NCR for a total of 14 years.

He also previously served as a senior in-house lawyer for Colorado-based US WEST, Inc. (a $12 billion telecommunications and technology company, which is now part of Qwest Communications) for two years, where he was the attorney in charge of General Litigation and served as chief general legal counsel for the company's largest business unit, Network, Operations and Technologies.

Mr. Carver has been a lead contributor to extensive negotiation/mediation-inclusive business Dispute Avoidance and Resolution Processes at NCR, AT&T and US WEST. He is also an Adjunct Professor of Law and a board member at the University of Dayton School

of Law in Ohio, where he has taught Alternative Dispute Resolution ("ADR"), including negotiation, mediation, and arbitration for five years.

Mr. Carver holds a BA *cum laude* and with departmental honors from Wright State University in Ohio. He also holds a JD *magna cum laude* from the University of Dayton School of Law, where he served as a writer and editor on Law Review and as member of the Moot Court team. In law school, he received five AmJur awards (for the highest grade in a class), the Best Oral Advocate award in moot court competition, and the Lawyers' Lawyer award (the graduating student whom other students would select to be their lawyer) and was inducted to the Order of Barristers.

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THE BRAIN DRAIN…WHAT CAN AN EMPLOYER DO TO PROTECT ITS' CONFIDENTIAL INFORMATION?

The Obvious Safeguards:

1. Sign Employment/Confidentiality/Non-Compete Agreements with your Key Executives
2. Control/Monitor Documents Containing Confidential Information
3. Limit the Confidential Information to a limited number of Executives
4. Require Suppliers/Vendors to Sign Confidentiality Agreements
5. Develop Computer Network Firewalls
6. Require Security Clearances
7. Maintain Prompt Document Destruction Policies

Legal Recourse:

A. Against Your Employee

I. Breach of Contract

Most Jurisdictions Authorize Specific Enforcement of "Reasonable" Non-Compete Agreements Protecting Competitive Business Interests

Michigan's statute is typical: "Covenants . . . permitted to protect an employer's . . . interest in trade secrets, client lists, and corporate planning or confidential employment materials." (MCL 445.774 a)

Non-Compete agreements are generally prohibited in California (Cal. Bus & Prof. Code Section 16,600)

Non-Compete Agreement Must Be "Reasonable" as to:

a. Type Of Employment Or Line Of Business. The scope of the restriction should trace, as closely as possible, the scope of the executive's employment with your company (e.g. an auto manufacturer can probably restrict an employee from working from another auto

manufacturer but probably can not restrict an employee from working for an automobile supplier)

b. Geographical Area. Again, the scope of the restriction should be co-extensive with the scope of your business and the executive's duties

Superior Consulting Co v Walling, 851 F Supp 839, 847(ED Mich 1994) appeal dismissed as moot and remanded, 48 F3d 1219; 1995 US App LEXIS 4583 (6TH Cir 1995) Court noted that a worldwide non-compete agreement can be reasonable if "the employer actually has legitimate business interests throughout the world". Court held that because the plaintiff conducted business in 43 states and several foreign countries, the unlimited geographical scope of the non-competition agreement was reasonable. ***See also Lowry Computer Prods v Head, F Supp 1111, 1116 (ED Mich 1997)***

c. Duration

The following cases found non-compete agreements containing a duration of five years or more to be reasonable: ***Electronic Distribs, Inc.*** v ***SFR, Inc.***. 166 F3d 1074, 1085-86 (10th Cir 1999)(7 year non-compete covenant, executed in sale of business, was reasonable); ***Ward v Midcom, Inc.***, ***575 NW2d 233 (SD 1998) (*** non-compete agreement executed by an employee found reasonable***); Gelder Med Group v Webber, 41 NY2d 680, 394 NYS2d 867 (5 years)***

d. The Circumstances In Which It Was Made. Was it a form distributed ***en masse*** to your employees? Or was the particular agreement specifically negotiated with the employee?

II. Uniform Trades Secrets Act

Even in the absence of a non-compete agreement, you ***may*** be able to preclude your employee from disclosing your confidential information to another employer.

Most states have adopted a version of the Uniform Trades Secret Act ("UTSA") (Michigan did in 1998, MCL 445.1902 (d); California has also adopted).

The UTSA permits injunctive relief against both actual and threatened misappropriation of trade secrets based upon a showing that: a) the employee has information protected by the UTSA and b) the employee has either breached a covenant not to disclose ***or*** the doctrine of "inevitable disclosure" applies.

Does The UTSA Apply?

a. Is The Information Protected By the UTSA?

The UTSA protects business information such as business plans, marketing plans, financial information, credit and/or pricing policies or other business information if the information is:

1) not generally known to, and not readily ascertainable by, other persons who can derive economic value from its disclosure or use (e.g. competitors), and
2) the subject of efforts that are reasonable under the circumstances to maintain its secrecy in other words, have you treated your trade secrets like they are trade secrets?(See Obvious Safeguards above).

b. Has The Employee Breached A Covenant Not To Disclose OR Does The Doctrine of Inevitable Disclosure Apply?

i. Have they already breached?

ii. What Is The "Doctrine of Inevitable Disclosure?

The doctrine recognizes that despite a former employee's best intentions not to disclose information protected by the UTSA, it may be inevitable that they will disclose or use the Information in performing their new duties.

If a Court believes disclosure is "inevitable", It can grant a limited injunction even where No proof of actual use or disclosure is shown.

What Factors Are Relied Upon By Courts To Determine Whether Disclosure Is Inevitable?

a) is the new employer a competitor; b) what is the scope of the employee's new job; c) has the employee been less than candid about their new position; d) has plaintiff clearly identified the trade secrets at risk; e) has actual trade secret misappropriation already occurred; f) did the employee sign a non-disclosure statement; g) does the new employer have a policy against use of others' trade secrets; h) is it possible to sanitize the employee's new position by creating injunctive relief that addresses potential risks of disclosure while allowing the employee to assume at least some of their duties? (537 PLI/Pat 199, 1998)

See Pepisco, Inc v Redmond, 54 F 3d 1262 (7th Cir 1995) (General Manager of California business unit restrained from working for competitor Quaker Foods for almost six months even though no evidence of actual misappropriation and former manager and new employer asserted they did not intend to use confidential information.

See also E. Merck & Co., Inc. v Lyon, 941 F. Supp. 1443 (M.D.Ca, 1996) The Court looked determined that some misappropriation of confidential information by departing employee was likely to occur in his new position, noted Lyon had been less than forthright in his representations to his prior employer regarding his new position and that his misrepresentations provided a basis for questioning his ability to keep his word with respect to the confidentiality agreement. Court entered an injunction barring discussion of pricing, strategy, marketing plans, and launch plans for the products he worked on for prior employer.

General Issues In Litigating UTSA Case:

1. Be prepared to provide a comprehensive, detailed description of the trade secrets that will be "inevitable disclosed" if your former employee goes to work, or attempts to go to work, for a new company

2. In seeking injunctive relief, attempt to keep the scope of the injunction as narrow as possible. Courts are very sensitive to restrictions on a person's right to earn a living. A request for broad-based injunction should be supported by compelling evidence of actual or potential wrong-doing

3. Present a confidentiality order to the court at outset of case. Given the specificity with which plaintiffs must be prepared to describe the trade secrets at issue and the manner in which those secrets will be inevitably disclosed by the employee in his new position, a comprehensive confidentiality order governing discovery should be immediately implemented.

4. From a defensive perspective, conduct a comprehensive analysis of the new job functions and how they can be carried out without resort to the prior employer's confidential information.

5. Consult with counsel before hiring a competitors' employee. Although it seems obvious, the new hire should be cautioned not to assemble copies of his present employer's strategic plans, technical production information or other confidential documents prior to his departure.

III. Economic Espionage Act of 1996

(See also Section 499 c, CA Penal Code)

EEA (18 U.S.C. § 1831-1839) covers prosecution of corporate espionage with foreign governments (§ 1831) and the "theft of trade secrets" (§ 1832). Section 1832 is a generalized proscription and applies to anyone who knowingly engages in the theft of trade secrets, or attempts or conspires to do so---can apply to two domestic companies.

Elements: A prosecution under § 1832 requires the government to prove three elements: 1) an intention to confer an economic benefit on himself or another person or entity; 2) that the defendant knew or intended to injure the owner of the trade secret; and 3) the trade secret is related to or included in a product that is involved in interstate commerce (no need to show economic benefit for defendant)

Criminal Penalties: A violation of § 1832 carries a maximum term of imprisonment of 10 years and fines of $250,000 for an individual and $5M for an organization.

But Do You Really Want To Do This? Do you really want to invite the government to open a criminal investigation of the matter which will, necessarily, require inspection by law enforcement authorities of your personnel and business records and possible disclosure of your company's trade secrets. Although the EEA contains a provision authorizing the court to enter orders designed to preserve the confidentiality of trade secrets, disclosure of those secrets may be required to permit the defendant to meet the charges against him.

Prosecution Not Likely To Happen: Prosecutions have been limited to "smoking gun" scenarios involving corrupt employees who agree to sell company secrets for significant cash payments.

California Penal Code amended in 1996 to use the Uniform Trade Secrets Act definition of "trade secrets".

B. Legal Recourse Against Your Employee's New Employer Interference With Contractual Relations

Generally requires a showing that the new employer engaged in an intentional act that caused the employee to breach their contractual or business relationship and that your company was, somehow, damaged.

Alternatives To Non-Compete Agreements:

1. **Disincentives** Severance pay/ pension forfeiture for going to work for a direct competitor; "penalty clause" if you leave and take customers (e.g. equal to their net profit)

   But Will the Court in a "non compete clause state" see these efforts as a non-compete in disguise?

2. **Choice Of Law Provision**: A "bare bones" Delaware choice of law provision is going to be struck down as a violation of public policy in a state that prohibits non-compete agreements but provision may apply where sufficient nexus exists between the choice of forum state

and contract (e.g. Company headquarters there? Did employee travel there for meetings, etc)

Sample Non-Complete/Confidentiality Language:

Non-Compete: "For a period of five years from the date of your severance of employment with ABC company, you will not engage in or become employed by or render services to any individual, firm, or corporation which engages as [same operations as ABC] in competition with ABC, any of ABC's subsidiaries or affiliates, or any of its franchises. It is understand that a {describe non direct competitor, supplier?] to the XYZ industry, who is not also a direct competitor of ABC, or a subsidiary or affiliate of a direct competitor of ABC is specifically excluded from this restriction.

Confidentiality: "You acknowledge that, during the course of your employment with ABC Company, you will acquire during the Employment Term confidential or proprietary information and trade secrets concerning ABC's operations, its future plans and methods of doing business, including by way of example only, information regarding ABC's customers, product development, research, technology, finances, marketing, pricing, cost, business strategies, compensation and other matters (hereafter collectively "Confidential Information"), all of which you understand and agree would be extremely damaging to ABC if disclosed to a competitor or made available to any other person or corporation. You understand and agree that such Confidential Information has been divulged to you in confidence and that you may not use Confidential Information for any purpose, and may not disclose such Confidential Information to anyone, at any time, unless such disclosure is expressly authorized in writing and in advance of disclosure by an authorized

