

Trade Secrets, Computer Fraud, and Non-Competes

Practice Overview





Competitive Advantage: Protecting Your Vital Interests

Seyfarth Shaw LLP has one of the country's pre-eminent groups dedicated to trade secrets, restrictive covenants, computer fraud, and unfair competition matters. Unlike any of our peer firms, our national Trade Secrets, Computer Fraud & Non-Competes Practice Group attorneys work to help clients prevent trade secret theft or misappropriation, violations of non-competes and computer fraud, and then if necessary, pursue aggressive litigation tactics to stop the further spread or use of information and other improper activities. Further, Seyfarth Shaw aggressively defends our clients against such allegations as well.

As today's businesses meet the challenges of an intense global market, securing their information capital is more crucial than ever. Without the customer lists, without the product designs, pricing margins or strategic plans, without the accumulated knowledge and wisdom of its employees, the modern business stands to lose not just data, but their competitive advantage. At a minimum, failure to take both proactive and reactive measures could result in significant loss of profitability and goodwill. Protecting this intellectual capital is critical to the mission of the modern business.

The Group organizes members around clients—mindful of their specific needs so that our clients are assured consistency in representation, economic and efficient service, and a team of attorneys that understand their businesses. We also possess a deep commitment to keeping our clients apprised of significant changes in statutory, regulatory, and common law developments at the federal, local, and state level nationwide. This process of educating our clients ensures an ongoing engagement on this issues and encourages proactive efforts to preserve and protect clients from the risks of intellectual capital losses which could jeopardize market share, profitability or even the viability of the company.

Our attorneys' combination of technical and legal knowledge provides clients with unique insight into investigations and litigation, and positions us to develop comprehensive intellectual capital protection programs to reduce risks and prevent theft.

About Our Team

Seyfarth Shaw's Trade Secrets, Computer Fraud & Non-Competes Practice Group consists of more than 45 experienced attorneys from our Litigation and Labor & Employment Departments and spans all nine of our U.S. offices. Members work collaboratively to share best practices, stay abreast of legal developments in each of the states, and learn industry-specific information that enables us to maximize the value we bring to our clients. The group includes former prosecutors and attorneys general, seasoned trial attorneys, and aggressive litigators, many of whom are well-versed in computer forensics and eDiscovery issues. Our attorneys' combination of technical and legal knowledge provides clients with unique insight into investigations and litigation, and positions us to develop comprehensive intellectual capital protection programs to reduce risks and prevent theft.

Many of the attorneys in the Trade Secrets, Computer Fraud & Non-Competes Practice Group are recognized as leading authorities, both locally and nationally. For example, attorneys in the group have: partnered with

Law Seminars International in providing advanced workshops for trade secrets practitioners in Chicago, Atlanta, and Houston; written pioneering articles on use of the Computer Fraud and Abuse Act in trade secrets cases; developed a Webinar series for clients nationwide on protecting trade secrets; lectured as adjunct faculty members on litigating trade secrets and unfair competition cases; and written and spoken to industry and bar groups nationwide. Recently one of our attorneys was even named to the California Intellectual Property Board.

In addition, Seyfarth launched Trading Secrets, a timely and substantive blog on issues surrounding trade secrets, restrictive covenants, computer fraud, breach of fiduciary duty, and unfair competition. Since its launch to the public, content from Trading Secrets has appeared on newsfeeds such as Lexology and iTechLaw, IP.com's "Securing Innovation" Blog, and Kevin O'Keefe's "Real Lawyers Have Blogs," one of the leading sources of information and commentary on the use of blogs, RSS, and social media for the marketing of law firms. The blog is located at www.tradesecretslaw.com.

Our Services

Litigation

Seyfarth Shaw's Trade Secrets, Computer Fraud & Non-Competes Practice Group has handled hundreds of actions in state and federal courts throughout the country as well as covenant enforcement proceedings before FINRA (formerly NASD), convened arbitration panels and other alternative dispute resolution venues. These actions have involved a wide range of industries including, but not limited to, securities, financial services, health care, chemicals, manufacturing, transportation, insurance, pharmaceutical, and automotive.

Our attorneys represent clients in a variety of cases, from general trade secrets matters to restrictive covenant and employee raiding cases. While each case certainly has special considerations, we have an advanced understanding of the legal issues that recur from case to case, such as:

- Inevitable disclosure
- Electronic discovery and forensic computer analysis
- What constitutes irreparable injury
- Availability of injunctive relief pending arbitration
- Consideration for restrictive covenants
- Protectable interests needed for an enforceable covenant

Trade Secrets

No company is immune from trade secret theft, even if it has protection policies in place. The Trade Secrets, Computer Fraud & Non-Competes Practice Group attorneys at Seyfarth Shaw work daily representing companies when an employee or a competitor is caught stealing confidential information. We also regularly defend individuals and companies who have been accused of stealing, using, or disclosing confidential information. In addition, we work with clients to manage employees' use of social media to avoid disclosures of company trade secrets or confidential information on the web. Our experience representing both companies and employees as plaintiffs and

defendants gives us a balanced, practical approach to delivering effective solutions to our clients.

Knowing that time equals money in trade secrets cases, we are particularly skilled in quickly and aggressively obtaining injunctive relief in time-sensitive situations. Our intimate knowledge about the expedited process and the experience of making every minute count is what sets us apart from our competitors.

If a company suspects information has been improperly taken, our team is ready to take fast, effective injunctive action and pursue law enforcement intervention. We immediately:

- Investigate and develop the facts through interviews and collaboration with forensic and computer experts
- Issue a cease-and-desist letter
- File suit and/or seek an injunction to stop the illegal activity
- Contact law enforcement, when necessary, to begin criminal proceedings

In the case of an injunction, we retain experts and obtain affidavits to support our motion for a temporary restraining order, expedited discovery, and/or preliminary injunction. During the expedited discovery process, we are adept at handling multiple depositions, reviewing thousands of documents, responding to requests for information, and issuing subpoenas for information from third parties in a matter of days. We also work closely with the firm's eDiscovery team to ensure that our clients are properly preserving and assembling information that will build our case.

In instances when there has been a violation, our attorneys often collaborate with law enforcement personnel—including the U.S. Attorney's Office, Federal Bureau of Investigation, and local authorities—to pursue criminal charges against alleged wrongdoers. We also work with private investigators to obtain the recovery of highly sensitive and valuable information. As a result of the large number of cases our attorneys handle in this area, we develop substantial efficiencies in investigating facts, procuring witness affidavits or

declarations, preparing complaints, answers, and legal memoranda through our SeyfarthLean® initiative. SeyfarthLean is a process improvement methodology drawn from Lean Six Sigma, but customized by Seyfarth to work in a legal services setting. It is a structured, data-centered discipline, driven by client requirements, and designed to eliminate steps that don't add value, reduce inefficiencies and improve key components of processes. This initiative, along with our national practice, has enabled us to develop a database of state-specific research, briefs, and experience unparalleled by other firms.

Computer Fraud

Long before electronic discovery was in vogue and the use of forensic computer experts became the norm, our attorneys were pioneering the application of electronic investigation in the area of restrictive covenant law and violations of the federal Computer Fraud and Abuse Act. We regularly work with in-house IT departments and forensic examiners to bring claims when employees or competitors improperly access, copy, download, or destroy a company's proprietary information.

The Trade Secrets, Computer Fraud & Non-Competes Practice Group works closely with Seyfarth's eDiscovery team. This team includes members with extensive experience in maximizing the data gained from eDiscovery—including metadata and all forms of electronic messaging—as well as minimizing the impact of eDiscovery by building proper procedures for retaining and storing electronically stored information.

Restrictive Covenants and Confidentiality Agreements

Restrictive covenants are a permanent fixture in today's employment landscape. Employers utilize non-compete agreements to protect confidential information, protect customer goodwill, and promote work force stability by prohibiting employees from working for a direct competitor for a specified period of time. Similarly, many employers also impose non-solicitation agreements to prohibit departing employees from soliciting other employees, clients, or contacts after leaving the company.

We have extensive experience representing both companies and employees in restrictive covenant matters, and have likely seen every possible variation and nuance in restrictive covenant law. Our attorneys have represented companies in virtually every industry, from financial services to telecommunications, and have prosecuted all forms of covenants or defended against accusations that our clients imposed an unfair restrictive covenant agreement on an employee. We also work diligently on behalf of employees and companies that are accused of violating an agreement.

Our attorneys understand the fine distinctions that can determine whether restrictive covenants are "reasonable" in the court's eyes in terms of scope, nature, and duration. Whether we are representing a major corporation or an individual employee, our attorneys learn as much as possible about the company's business and the employee's role within the company in order to obtain favorable results for our clients.

Seyfarth Shaw attorneys are skilled at representing both companies and individual employees, from staff members to chief executives, in matters involving allegations of raiding and mass raiding.



Because restrictive covenants are governed by individual state laws, we are able to immediately assemble a team of attorneys in virtually any part of the country when a matter arises. We have extensive experience prosecuting and defending temporary restraining orders and preliminary injunctions in all 50 states and in federal courts nationwide, and when necessary, we look to our broad network of local counsel to obtain pro hac vice admissions. There is virtually no firm in the country that can boast the strength of our national coverage, our successes, and our sheer volume of cases.

Business Transaction Confidentiality

Most business dealings today require companies to reveal at least some of its proprietary information, whether to an individual during his or her employment or to another company in the course of business negotiations. A well drafted confidentiality agreement can reduce the risk of that information being misappropriated, but many times employees and companies find themselves in hot water for allegedly violating an agreement, potentially resulting in injunctive action and significant monetary damages.

Seyfarth Shaw vigorously enforces and defends against confidentiality and non-disclosure agreements. Because of our attorneys' strong business acumen, we understand the dynamics of business negotiations, knowing that each company needs to comprehend the processes used in the other's business in order to fully evaluate the potential relationship. Our team protects companies from having their confidential information compromised during negotiations, and we defend companies who are accused of wrongdoing during the process.

Employee Raiding

Businesses are susceptible to employee raiding regardless of their size, composition, or industry. This deliberate, predatory effort to access confidential information by inducing employees to leave for a competitor can quickly lead to a company's demise.

Whether one employ is being recruited away or an entire sales force is being raided en masse, the damage to a business can be devastating.

Seyfarth Shaw attorneys are skilled at representing both companies and individual employees, from staff members to chief executives, in matters involving allegations of raiding and mass raiding. We monitor former employees' actions and pursue litigation against former employees and competitors that engage in illegal raiding activities. Of note, we have been monitoring the impact of social media on employee raiding and other activities, including the use of social media headhunters to approach employees with the goal of hiring them away.

We also help clients exercise precautionary measures when hiring employees to avoid allegations of raiding and trade secret misappropriation. Lack of such measures may subject companies to monetary damages totaling millions of dollars, and the new employees may face multiple forms of injunctive relief restricting their place of employment and activities at the company.

Counseling

We know that mishandling business information can affect any company, at any time, and result in devastating monetary damage and loss of competitive advantage. At the same time, technology has made it increasingly difficult to properly secure every pitch, business plan, list and other collections of data that nevertheless represent fundamental pillars of the company. Often, information is divulged not through malice, but instead through imperfect procedures followed by their own representatives, inadvertently disclosing trade secrets to vendors, consultants, independent contractors, or business partners. For those reasons, we do not see our role as simply reactive.

Our attorneys often counsel clients on how to take proactive steps to protect their valuable trade secrets, intellectual capital, workforce, customer relationships, and other confidential information. We are committed to

understanding our clients' businesses, intellectual capital, and areas of concern to ensure that their protection programs are comprehensive, well thought out, and tailored to individuals at all appropriate levels with the organizations. For our clients, we regularly:

- Develop protocols, procedures, policies, and agreements to govern the employer-employee relationship
- Draft policies for employee handbooks
- Conduct trade secrets audits to determine what information should be protected
- Craft intellectual property development agreements wherein employers are assigned rights to all intellectual property created by an employee while working for that company
- Develop security procedures, including password protection, to limit access to software and facilities
- Review potential hires' covenant agreements
- Develop exit and on-boarding strategies for new hires

In addition, we audit physical and computer data security practices and make recommendations to help ensure adequate security and prevent theft. This often involves making recommendations concerning facility access, security layout, computer access, and protection of electronic data. Our team members work with other professionals to provide best practices concerning managing and protecting computer-stored data.

Just as importantly, we work with clients to ensure they are lawfully hiring employees who may possess confidential information, an aspect that becomes even more critical when the employee is coming from a competitor. The Economic Espionage Act makes it a federal crime to steal trade secrets, and companies can be liable if they hire employees who misappropriate such proprietary information. Our attorneys counsel companies regarding general hiring procedures, appropriate questions for employment applications and interviews, and how to avoid exposure to liability from the candidate's previously binding agreements.

Our team works closely with our clients' in-house counsel and human resources professionals to:

- Perform due-diligence checks on prospective employees to determine whether they are bound by restrictive covenants or non-compete agreements with former employers
- Determine if candidates possess trade secrets from their previous employers that might preclude their hiring and develop strategies to contain the improper use of confidential information
- Ensure that new hires sign appropriate restrictive covenants, non-compete agreements, intellectual property assignment agreements and/or confidentiality agreements controlling post-employment use and disclosure of proprietary information as well as solicitation activities
- Educate new employees about how to protect confidential information and trade secrets

Similarly, we counsel individual employees and start-up businesses on how to exit from their place of employment, or start a new business concern, advising them of their rights under the law and ensuring they don't take any missteps under their existing restrictive covenant agreements.

Investigations

Critical to any trade secret matter is the investigation of what, if any, wrongdoing occurred during the hiring and firing process. Seyfarth Shaw attorneys are experienced in investigating situations in which a departing employee is suspected of taking information, as well as situations when a company is suspected of hiring someone who possesses confidential information. We conduct comprehensive and confidential on-site interviews with employees, customers, vendors, and third parties who may have knowledge of the individual's actions, and comb through relevant files and workspaces for clues that will benefit our client. We also regularly collaborate with forensic experts and computer specialists to find out how secrets were taken and by whom, and to preserve any evidence necessary to future litigation.

SeyfarthLean:

A Commitment to Deliver Quality and Measurable Results

At Seyfarth, we have spent the last few years preparing for today's economic challenges by working with a different way of analyzing and delivering value to our clients—something we call *SeyfarthLean*. *SeyfarthLean* is the use of Lean Six Sigma processes and a myriad of electronic tools to plan, organize and manage resources. The goal of *SeyfarthLean* is to deliver value to our clients by employing right size staffing models and identifying and eliminating the inefficiencies that can push costs higher, while integrating knowledge management and technology to develop best practices for delivering high value, lower cost legal services. Applying *SeyfarthLean*

to our Trade Secrets practice, as well as every practice throughout the firm, helps drive down the costs of legal services by identifying and eliminating inefficiencies, and delivering quality work that decreases client costs by 15–50%.

The ability to manage trade secret portfolios in an efficient and cost-effective manner is essential to both minimizing trade secret vulnerabilities and maximizing the value of these important assets. Seyfarth Shaw understands this, and we offer clients a Lean Trade Secret Review service. This service provides a comprehensive and cost-effective approach to assessing and protecting your trade secret portfolio—including a review of and recommendations for non-compete and confidentiality agreements, as well as restrictive covenants. At the heart of our approach is understanding our clients' needs and tailoring unique solutions to help them meet their goals.



TOOLS:

We have an arsenal of tools that help us deliver value to clients within the *SeyfarthLean* framework. We've applied these tools across the firm's practice areas, with clients of all sizes and to meet varying client needs. Using *SeyfarthLean* tools, we better position our clients to tackle today's legal challenges with sophisticated, yet practical and efficient solutions.



Delivering Results

BREACH OF CONTRACT

We represented a global telecommunications innovator in a case involving breach of contract, trade secrets and related claims. We successfully settled a non-compete and breach of contract action on behalf of our client against the company's former COO, who accepted a position as CEO with a competitor in the telecommunications industry. Our client asserted that the hiring of its former COO by a competitor would break the terms of the executive's non-disclosure agreement and would result in the disclosure of trade secrets.

Result: Case settled for \$11.5 million and activity restrictions before trial.

INDUSTRIAL ESPIONAGE

Our client, the world's largest maker of blood disease treatments, alleged that a former employee copied and removed trade secrets relating to the manufacturing process of a number of biopharmaceutical products valued over \$1.5 billion. Before being hired by a competitor of our client, the employee had worked for our client for approximately six years and during that time was involved in a number of projects, including one to improve the manufacturing process for the company's billion-dollar products for hemophilia, cancer and kidney diseases. Our client's competitor manufactures a rival product.

Result: In this highly publicized matter involving the U.S. Attorney and FBI, we successfully obtained injunctive relief in this Computer Fraud and Abuse Act and trade secret misappropriation case regarding biopharmaceuticals.

ENFORCEMENT OF COVENANT NOT TO COMPETE

Seyfarth helped a consumer goods client achieve success enforcing a covenant not to compete and trade secret claims against two key employees who left the client's Las Vegas operation and tried to take approximately \$50 million in annual product sales (and other employees with them in California, Nevada and New Mexico). The former employees, who left to go to a competitor, immediately attempted to raid the client's key casino accounts in Las Vegas and lure client employees.

Result: The Seyfarth team obtained a temporary restraining order in Nevada federal court. Then, in preparation for the preliminary injunction hearing, the Seyfarth team handled double track depositions in multiple states, several discovery motions, a motion to dissolve the temporary restraining order, and a motion for contempt for violation of the temporary restraining order.

ALLEGATIONS OF TRADE SECRET THEFT AND EMPLOYEE RAIDING

Our client, a large U.S. title insurance group, was an alleged conspirator to steal trade secret information and raid the employees of a competing title insurance company. We represented our client in a commercial litigation matter for the theft of trade secrets and corporate raiding that was tried for three months in California.

Result: After two weeks of jury deliberations, our clients received full and complete defense verdicts. A second phase of trial followed thereafter under California's Unfair Business Practices Act, Bus & Prof Code § 17200. This equitable claim was tried to the court and after another week of trial our client was found, once again, not to have violated any laws. The Court entered findings that our client was not guilty of any of the allegations. Since the plaintiffs were unable to prevail under the California Uniform Trade Secrets Act, our clients were awarded attorneys fees and costs.

About Seyfarth Shaw

Seyfarth Shaw LLP ("Seyfarth") was founded in 1945 by three lawyers and has grown to more than 800 lawyers across 13 markets in the U.S. and abroad. We handle issues for our clients in all key areas including labor and employment, litigation, construction, corporate, employee benefits, environmental, government contracts, intellectual property, commercial litigation, real estate, securities litigation, trade secrets, trusts and estates, and workouts and bankruptcy, among others.

Our success is the result of a constant, unrelenting focus on the needs of our clients. Our commitment to excellence and our belief in the strength of a team-based approach to the delivery of our services offers an atmosphere of creative and innovative thinking.

Our clients are our partners in business and we are committed to listening to their needs and to aligning the skills and abilities of our people to respond to those needs. Our clients range from *Fortune* 100 to midsize companies, and include publicly traded and privately held companies and various types of funds. We represent clients of all sizes across all industries and we are diligent in providing the same level of commitment to each client.



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