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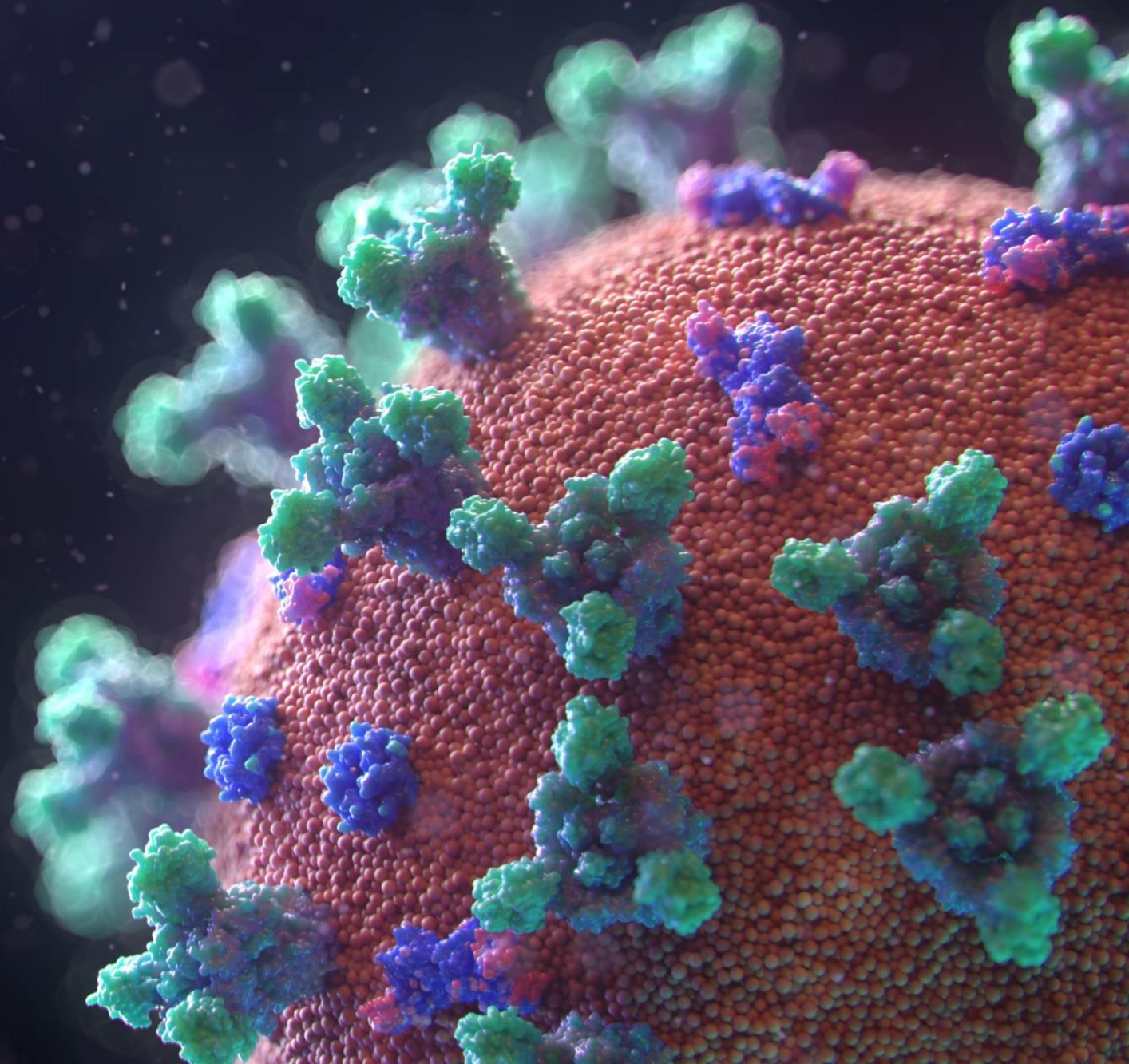# Weathering COVID-19
with Your Trade Secrets and
Customer Goodwill Intact

Jeremy Cohen
Marcus Mintz
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April 23, 2020

Seyfarth Shaw LLP

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Legal Disclaimer

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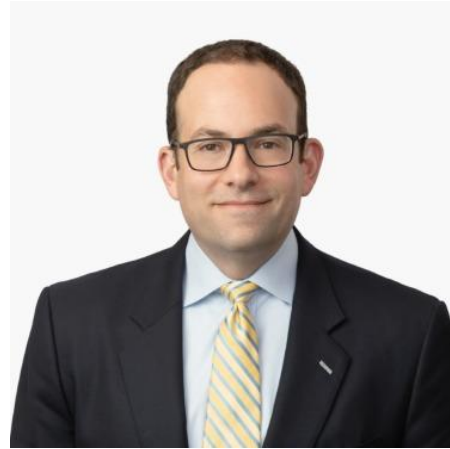
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Background for Webinar

- Series of blog posts on Seyfarth's Trading Secrets blog, which addresses topics on restrictive covenants, computer fraud, and trade secrets

- https://www.tradesecretslaw.com/

- Prepared in connection with our COVID-19 resource center

- Includes updates across areas of law, industries, geography, and state and federal legislation

- https://www.seyfarth.com/covid-19-resource-center.html

Agenda

1. Practical Tips for Protecting Trade Secrets During a Pandemic

2. What is a Litigation "Emergency" Now?

3. Enforcement of Restrictive Covenants Considerations During Pandemic and High Unemployment

4. Preparing for Litigation

5. Alternatives to Injunctive Relief

6. Getting Back to "Normal"

7. Questions?

Things Are Not Normal

- Workforces are now remote

- New technologies and methods of working are being implemented

- Risk of trade secret theft is substantially greater now

- In last few weeks, over 26 million Americans filed for unemployment benefits

- Furloughs and pay and benefit reductions are common as businesses work to preserve cash flow

Court Availability Is Impacted

- Almost all state and federal courts are limited in some capacity to hear and process litigation
- Standard for seeking emergency relief has changed
- Economic impact of COVID-19 pandemic has changed litigation considerations
- Matters routinely considered emergencies must now be put in context of COVID-19 and its ancillary effects

Availability of Courts Varies by State
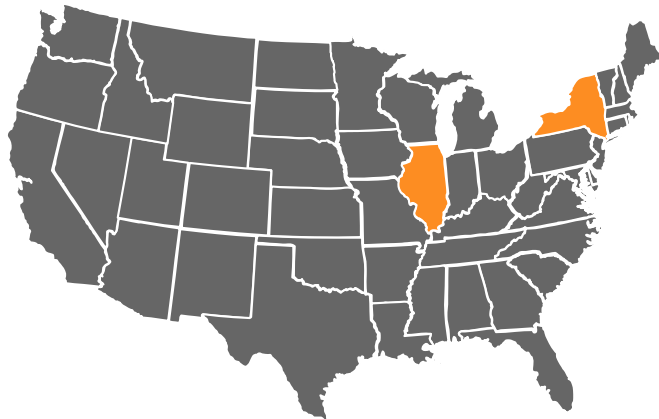
- New York:
  - filings allowed again on existing matters
  - new "non-essential" civil proceedings are prohibited

- Illinois:
  - the Chancery Division has extended dates for all non-emergency matters into late May
  - Emergency defined as: "a sudden and unforeseen circumstances that may cause injury, loss of life, or damage to property that requires an urgent respond and remedial action"

- Massachusetts
  - Courthouses are closed to the public except for remote handling of emergency matters until at least May 4th.
  - Each court has defined what constitutes an emergency matter in its court
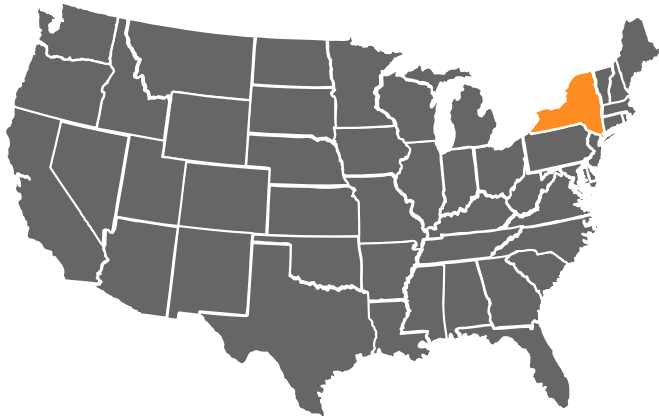
What Happens Next?
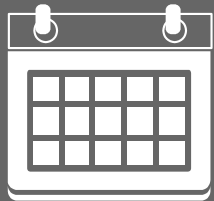
- Even after things begin to re-open, expect standard for emergencies to remain tighter than previously understood

- Federal courts will prioritize criminal dockets before civil

- Depending on jurisdiction, expect more hearings to be conducted remotely

Practical Tips

for Protecting Trade
Secrets During a Pandemic
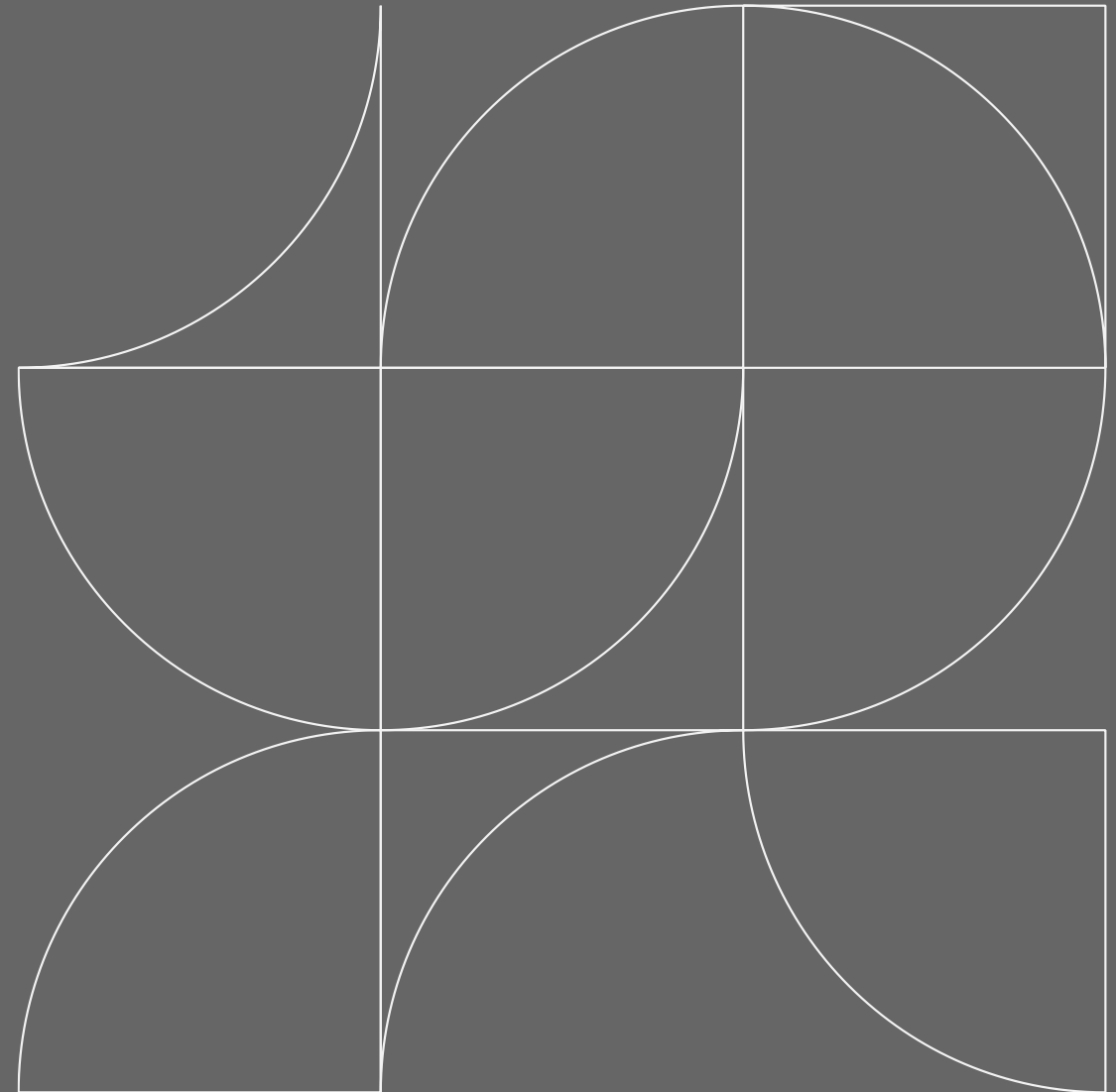
"Reasonable Measures" Still Required

- Trade Secret Statutes Require Reasonable Measures to Protect Trade Secrets
  - Federal Defend Trade Secrets Act
  - Uniform Trade Secrets Act (adopted in every state except New York)
  - Require that "reasonable measures" be taken to protect trade secrets

6 Tips

1. Set Clear Expectations
2. Training
3. Monitoring
4. Technical Infrastructure
5. Remote Security
6. What *not* to do - loosening security requirements in the name of efficiency and convenience
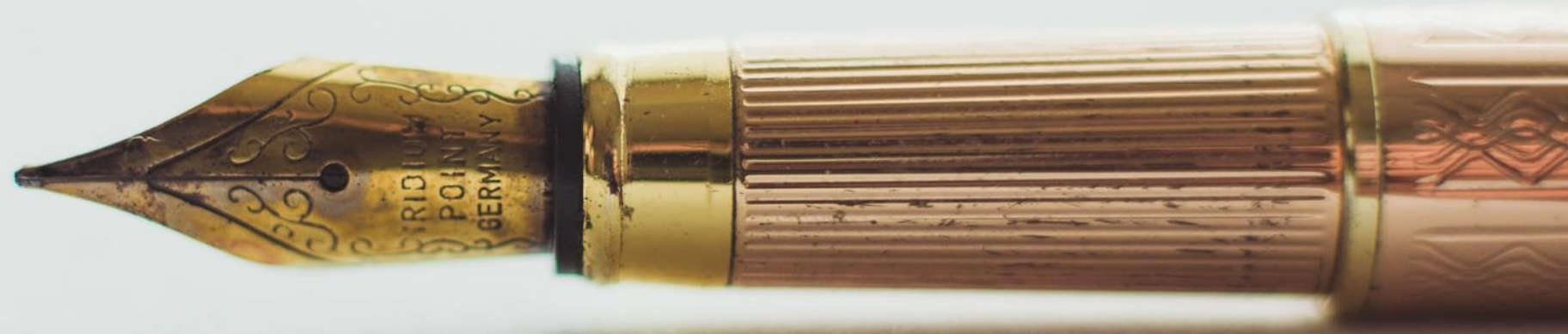
Set Clear Expectations – Agreements, Policies, Procedures

Training

- Understanding of what is confidential information

- Instruct employees on what company policy requires

- Use of secure, encrypted services to transmit and communicate about confidential information

Monitoring

Potential Signs of Trade Secret Theft

What we see when trade secret theft occurs?

- High-volume data activity
- Emails from work to personal accounts
- Use of unauthorized devices or cloud storage sites

Signs From FBI That An Employee May be Motivated to Steal

- greed or financial need
- unhappiness at work
- allegiance to another company or another country
- vulnerability to blackmail
- the promise of a better job
- drug or alcohol abuse

Technical Infrastructure

# Remote Security

What *not* do to

- Loosening security requirements in the name of efficiency and convenience

- Consider a trade secrets audit to update your company's policies and ensure technologies are sufficient to protect company data

- "An ounce of prevention is worth a pound of cure" – *Benjamin Franklin*

Enforcing Restrictive Covenant Agreements
During Times of High Unemployment
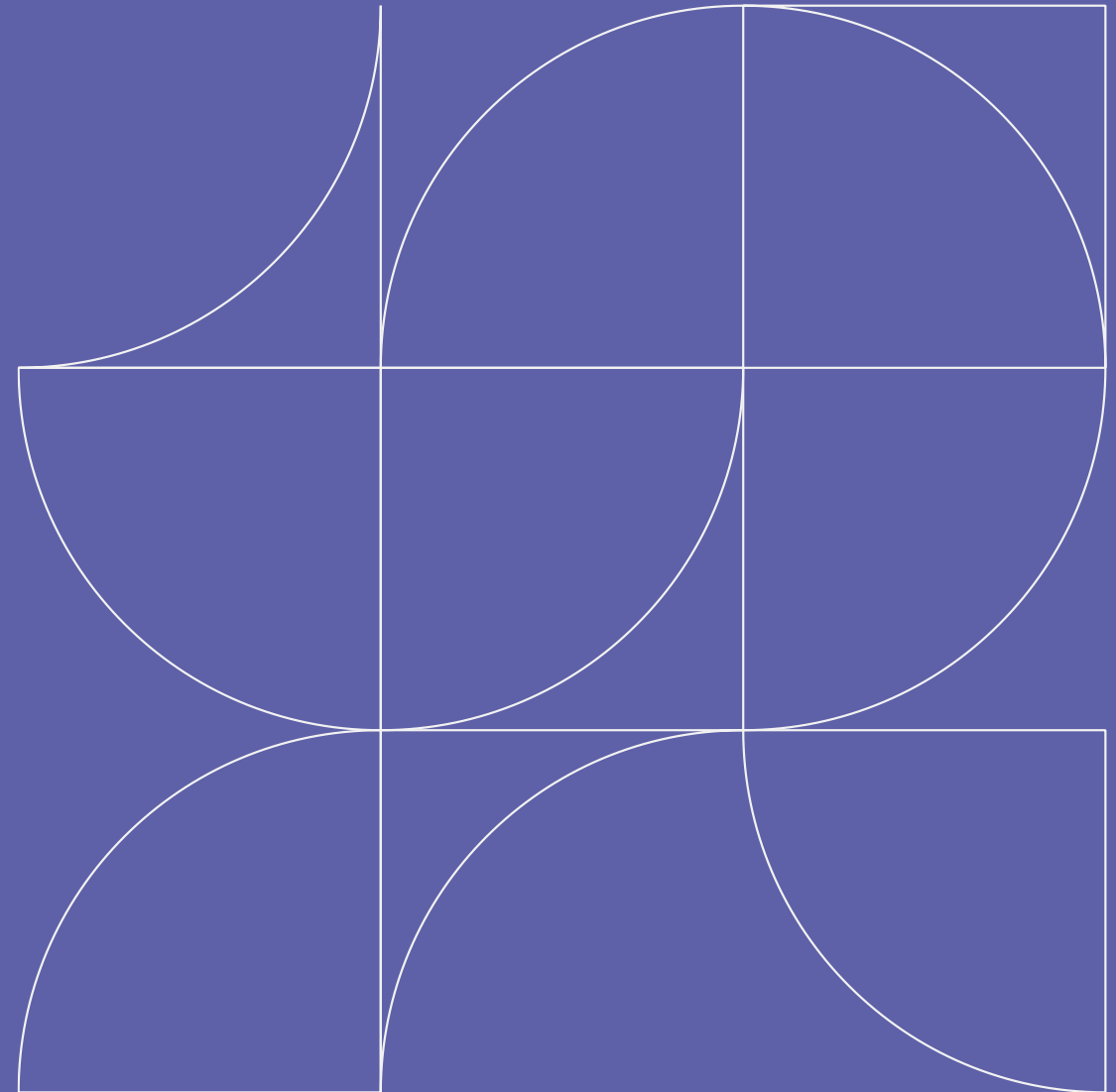
Unemployment is High and Continues to Rise

According to the U.S. Department of Labor:

- Initial unemployment claims in the United States soared to a seasonally adjusted 3.3 million the week ending March 21, 2020, the greatest single week increase in recorded history.

- The total number of people claiming benefits in all programs for the week ending March 28 was 8,206,806

- The week ending April 4, 2020 saw initial unemployment claims of 6,615,000

- The week ending April 11, 2020 saw initial unemployment claims of over 5 million, with a 4-week moving average of over 5.5 million

- In other words, **more than 22 million people** have filed for unemployment since social distancing measures took effect in mid-March

During the week ending March 21, the increase in initial claims are due to the impacts of the COVID-19 virus. Nearly every state providing comments cited the COVID-19 virus impacts. States continued to cite services industries broadly, particularly accommodation and food services. Additional industries heavily cited for the increases included the health care and social assistance, arts, entertainment and recreation, transportation and warehousing, and manufacturing industries.

- U.S. Department of Labor (March 26, 2020)

Are Non-Competes Enforceable Against Discharged Employees?
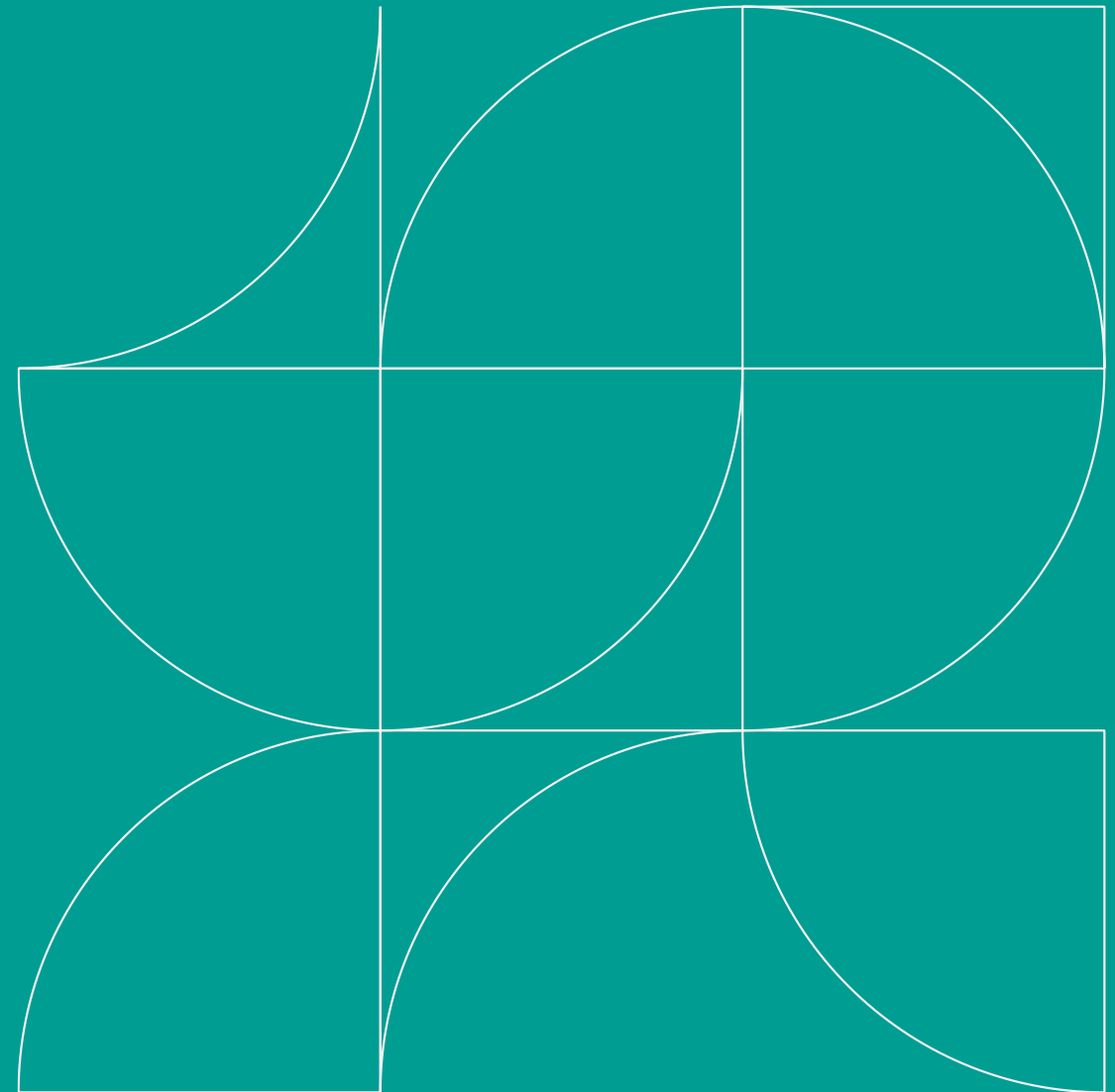
- 28 states permit enforcement of non-competes against discharged employees

- 3 states *likely* would permit enforcement of non-competes against discharged employees

- 9 states do not permit enforcement of non-competes against discharged employees

- In 10 states the issue is unresolved

- Several states passed new laws over the past few years that address this issue
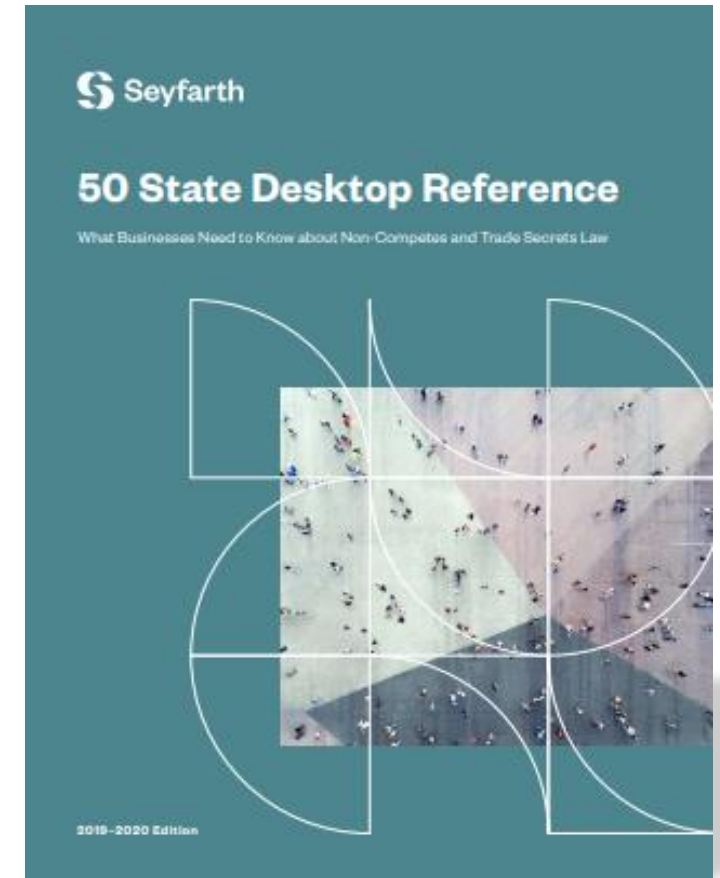
# Should You Enforce Non-Competes Against Laid Off Employees?

- Very fact dependent; depends largely on company culture

- The more egregious an employee's conduct, and the more serious the threat to a company's trade secrets, goodwill, or customer relationships, the more likely a company will feel compelled to do so.

- Consider the actual risk that the former employee poses by working for a competitor, potential alternatives to a lawsuit, the availability of emergency injunctive relief, and the public relations ramifications of filing a lawsuit.

- At the end of the day, however, companies should not tolerate misappropriation of trade secrets under any circumstances, and should take whatever action they deem necessary to protect those rights.

Going to Court During a Worldwide Health Crisis
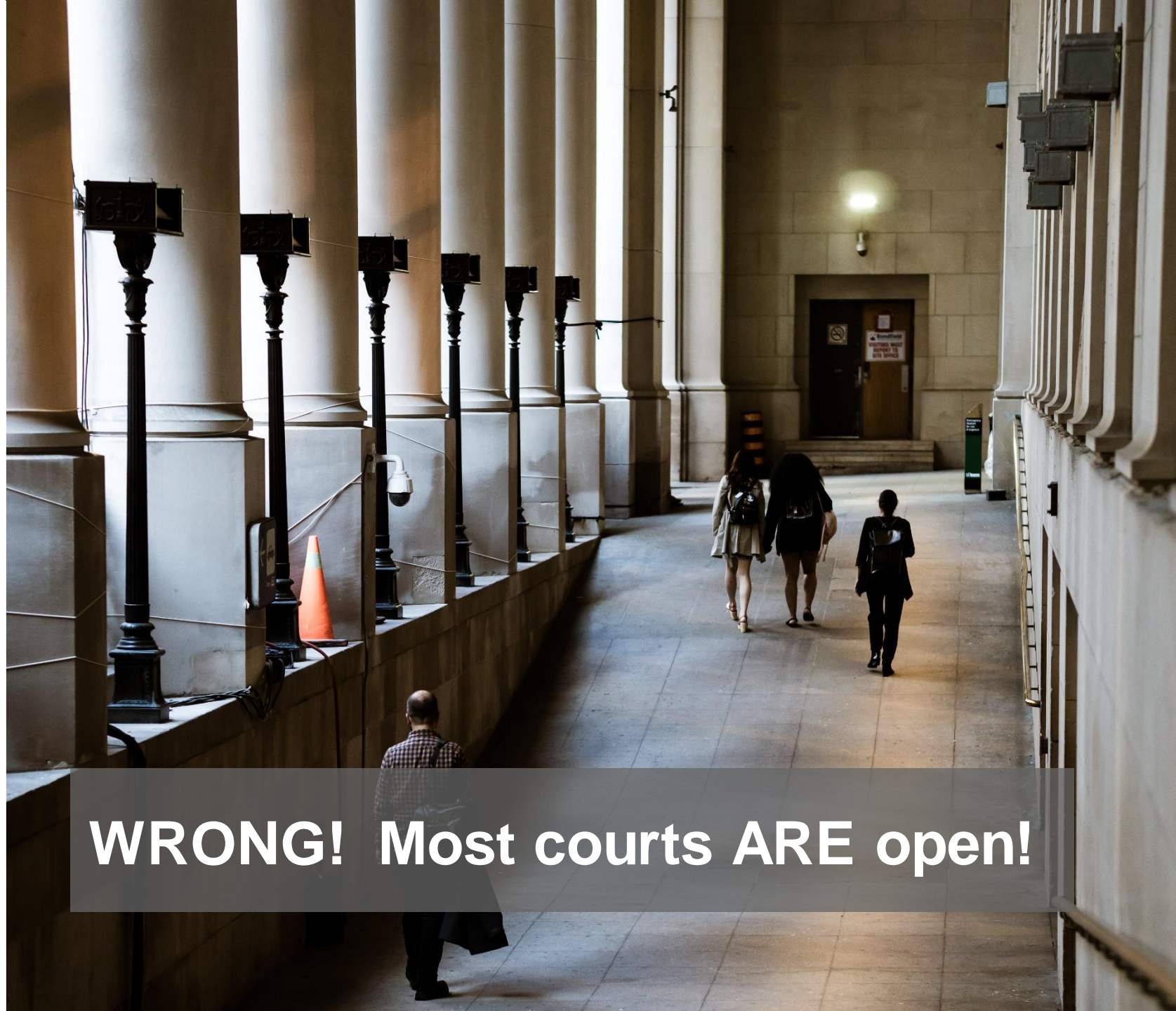
Typical Sequence in a
Trade Secrets or
Restrictive Covenant
Litigation
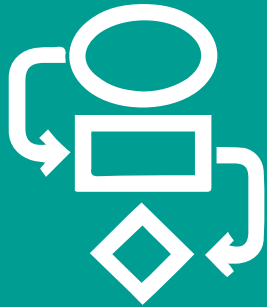
- Investigation

- Temporary Restraining Order ("TRO")

- Expedited Discovery

- Injunctive Relief

- Discovery

- Motion Practice

- Trial

But Courts are Closed for Trade Secrets Matters, Right?

WRONG! Most courts ARE open!

Most Courts Remain Open
for Business as Somewhat Usual

- Fully-Briefed Motions and Appeals

- "Emergency" or "Essential" Matters

- Injunctions and Orders to Show Cause

- Routine Matters

Fully-Briefed Motions and Appeals

Appeals

- Cabela's LLC v. Highby, 3rd Cir. April 14, 2020

- Prudential Locations, LLC v. Gagnon, Haw., April 15, 2020

Motions

- PPG Industries, Inc. v. Jiangsu Tie Mao Glass Co., Ltd., W.D. Pa. March 31, 2020

- Mainstream Fashions Franchising, Inc. v. All These Things, LLC, D. Minn. April 9, 2020

- Sandhills Global, Inc. v. Garafola, D.N.J. April 10, 2020

"Emergency" or "Essential" Matters

- <u>Office Depot, Inc. v. Babb</u>, S.D. Fla. March 13, 2020

- <u>Independent Technologies, LLC v. Otodata Wireless Networks, Inc.</u>, D. Nev. March 23, 2020

- <u>Biomin America, Inc. v. Lesaffre Yeast Corp</u>., D. Kan. March 30, 2020

- <u>Edwards Moving & Rigging, Inc. v. Jenkins</u>, M.D. Fla. April 1, 2020

- <u>ABC Phones of North Carolina, Inc. v. Yahyavi</u>, E.D.N.C. April 3, 2020

- <u>JTH Tax LLC v. McHugh</u>, W.D. Wash. April 7, 2020

- <u>Small Business Lending, LLC v. Pack</u>, S.D. Ind. April 8, 2020

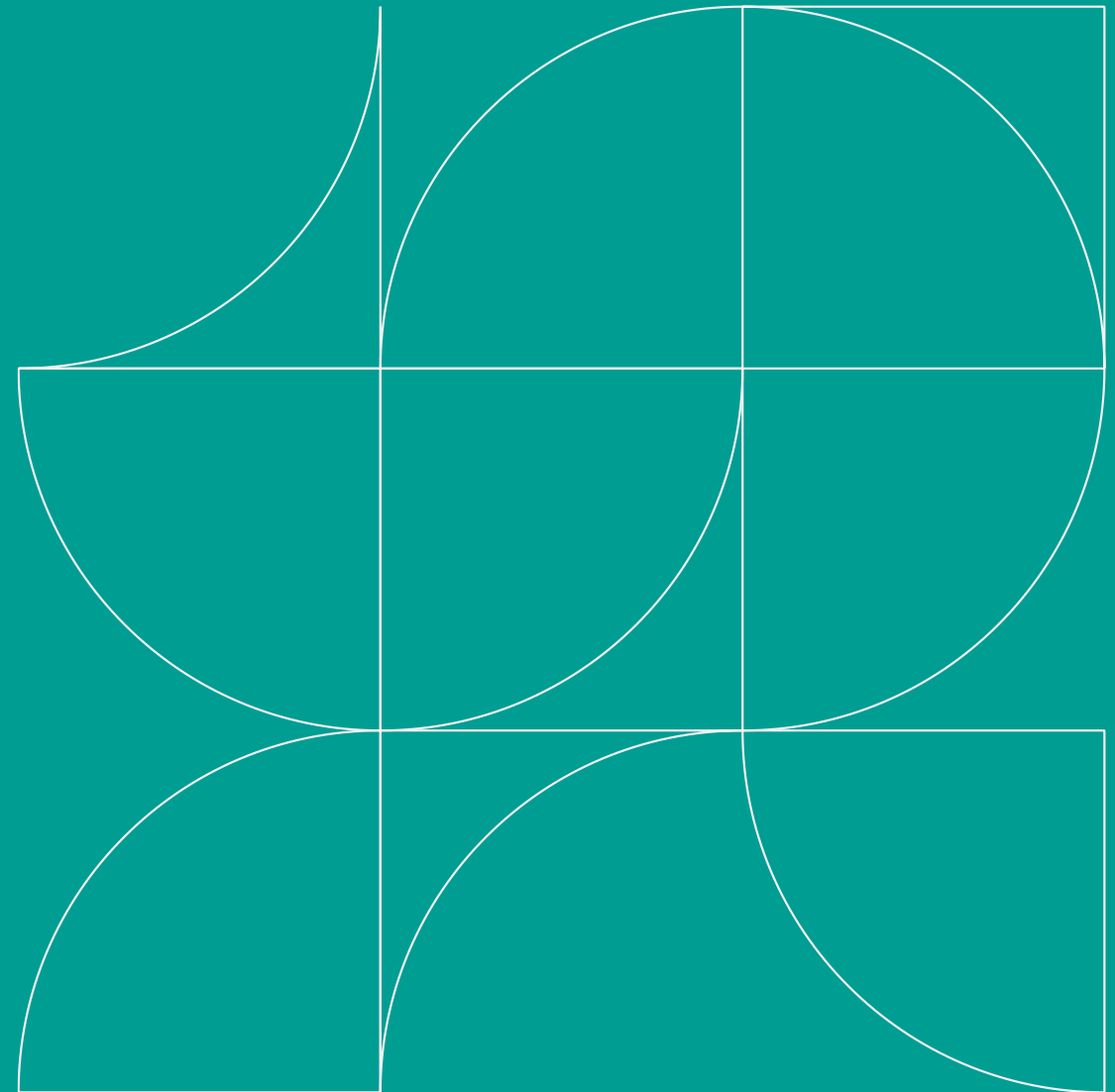## COVID-19 and Civil Procedure

- Venue
  - Forum Selection Clauses & Forum Availability
  - Forum Non Conveniens
  - Transfer motions

- Personal Jurisdiction

- Bankruptcy

Emergency Motions:
A Cautionary "Tail"

Preparing Your Case While the Court Near You is Closed

Out-of-Court Steps

- Investigations

- C&D Letters

- Monitoring

- Litigation Alternatives

- Stay Vigilant & Be Ready!

Investigations

- Forensic Examinations

- Witness Interviews

- Business Monitoring

- Social Media Monitoring

- In-depth Investigations

C&D Letters

- Identify the wrongful conduct/legal rights being violated

- Demand immediate cease & desist, and compliance with all contractual and legal obligations

- Demand return of all confidential information

- Demand preservation of evidence

- Reserve rights, including to seek damages

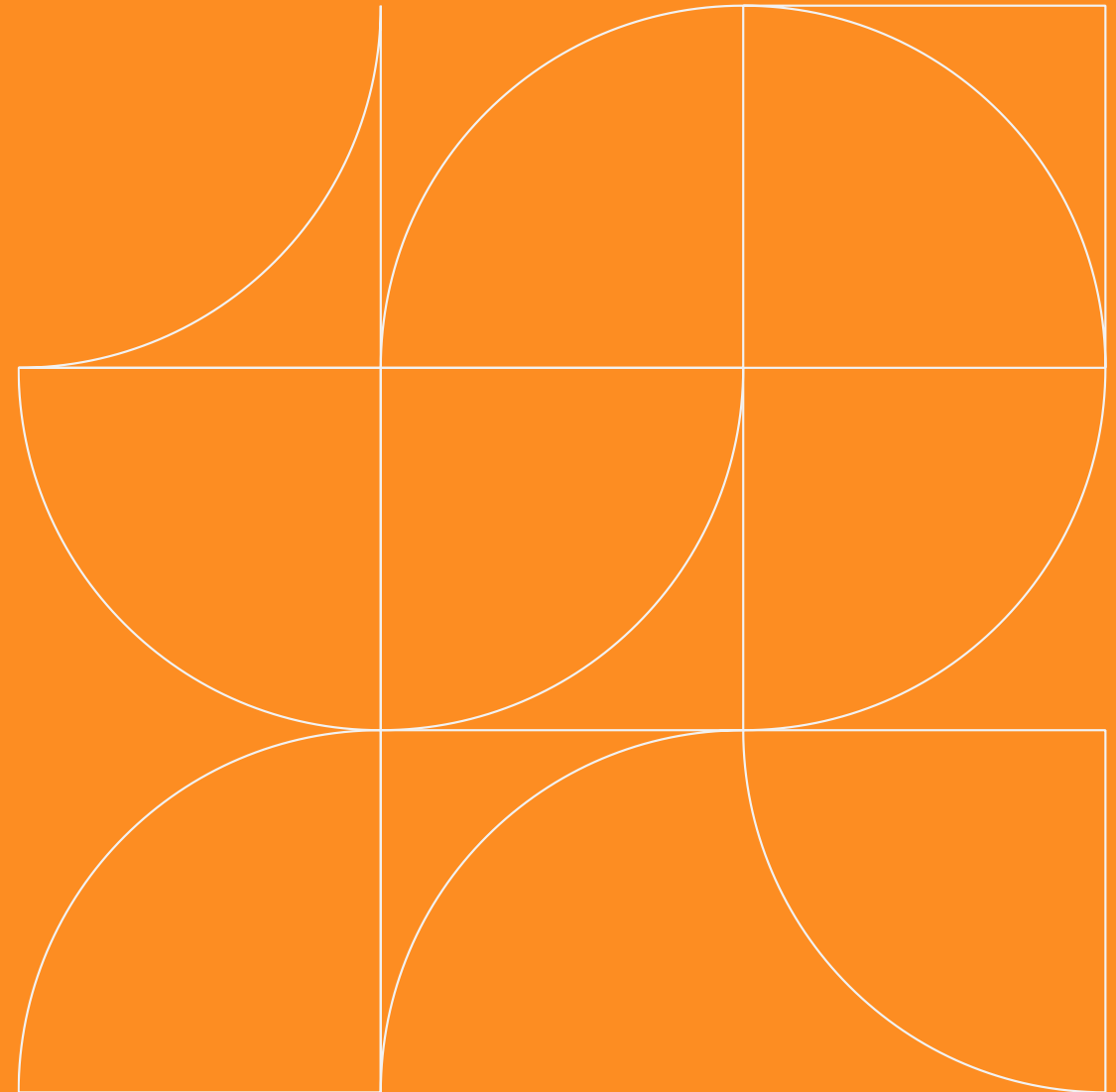**More Monitoring**

Litigation Alternatives

- Alternate Forums
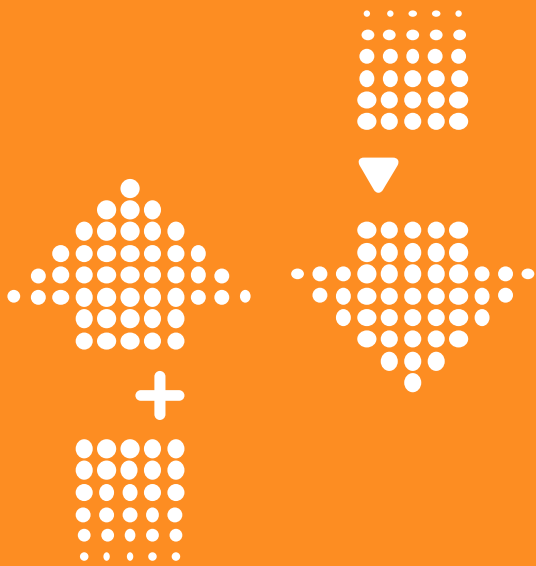
- Stipulated Injunctions and Expedited Discovery

- ADR

Stay Vigilant

# Emergency Injunction Not In the Cards?

Damages May Be Your Winning Hand

When Should You Seek Damages?

- Short answer: in every case you have suffered calculable harm

- Emergency injunctive relief may not be a viable option, it may be delayed, or it may not fully remediate the harm

- The prospect of significant damages — including the potential for exemplary damages and attorneys' fees — may prove a valuable deterrent, especially when access to injunctive relief may be more limited.

- Obtaining injunctive relief does not waive damages.
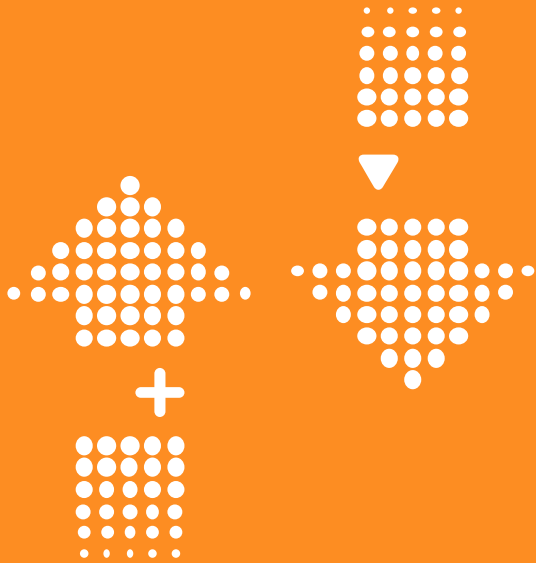
Damages for Breach of a Restrictive Covenant Agreement

- Most Common: Lost Profits
- Considerations:
  - Damages period
  - Past order volume
  - Revenues
  - Profits
  - Current and future market conditions
  - Consider the effect of COVID-19

Damages For
Trade Secret Misappropriation

Monetary remedies include:

- – Actual Loss
- – Unjust Enrichment
- – Reasonable Royalties
- – Exemplary Damages and/or Attorneys' Fees

- Nascant industries, not-yet-commercialized products, negative know-how

Defend Trade Secrets Act of 2016, 18 U.S.C. § 1836(b)(3)

Remedies. — In a civil action brought under this subsection with respect to the misappropriation of a trade secret, a court may—

(B) award—

 (i)

  (I) damages for actual loss caused by the misappropriation of the trade secret; and

  (II) damages for any unjust enrichment caused by the misappropriation of the trade secret that is not addressed in computing damages for actual loss; or

(ii) in lieu of damages measured by any other methods, the damages caused by the misappropriation measured by imposition of liability for a reasonable royalty for the misappropriator's unauthorized disclosure or use of the trade secret.

Actual Loss

- Lost profits (both past and demonstrable/non-speculative future lost profits) from lost sales or price erosion

- Increased costs incurred as a result of the misappropriation (which sometimes are set forth as a separate measure of actual loss or are sometimes used as a measure of lost profits),

- Research and development costs;

- Lost royalties (whether in the form of a fully paid up lump sum payment for access to the trade secrets or a running royalty for use made by the misappropriator), and

- Diminution or destruction of value (the value of the defendant's business or the value of the trade secret). Many of the same factors discussed above are relevant here too.

Unjust Enrichment

- Measured by the amount of benefit obtained by the misappropriator.

- Can include not only the misappropriator's profits and investor value, but also avoided royalties and avoided development costs or so-called "head start" damages

- Not available in New York

Reasonable Royalties

- A reasonable royalty is intended to provide an objective measure of value based on the amount that a willing buyer would pay and a willing seller would accept, neither being under any need for an immediate sale or purchase
  - Query whether there is ever a "willing seller" in the case of trade secrets, where their value is based on remaining a secret

Exemplary Damages and/or Attorneys' Fees

- Generally available, but usually only upon a showing of bad faith or willfulness under trade secret laws

- Include fee-shifting and/or liquidated damages provisions in confidentially agreements/NDAs with employees and business partners

Consider Litigation Finance
if You're Illiquid or Want to Limit Expenses

- Third-party funders provide non-recourse financing of litigation costs, including attorneys' and expert fees, in exchange for a percentage of any settlement or judgment in respect of a claim.

- Trade secret litigation is an area of law that is particularly ripe for third-party funding, both in normal circumstances, and also (and especially) in an economic downturn.

- Startup companies, companies in nascent industries, and companies with products that have yet to be commercialized are often cash-strapped or illiquid.

- Trade secrets may also be highly valuable assets of more established and larger companies, especially those that are associated with products still in the development (and pre-patent) phase, that may want to keep their costs down to maximize profits.

# Getting Back to "Normal"
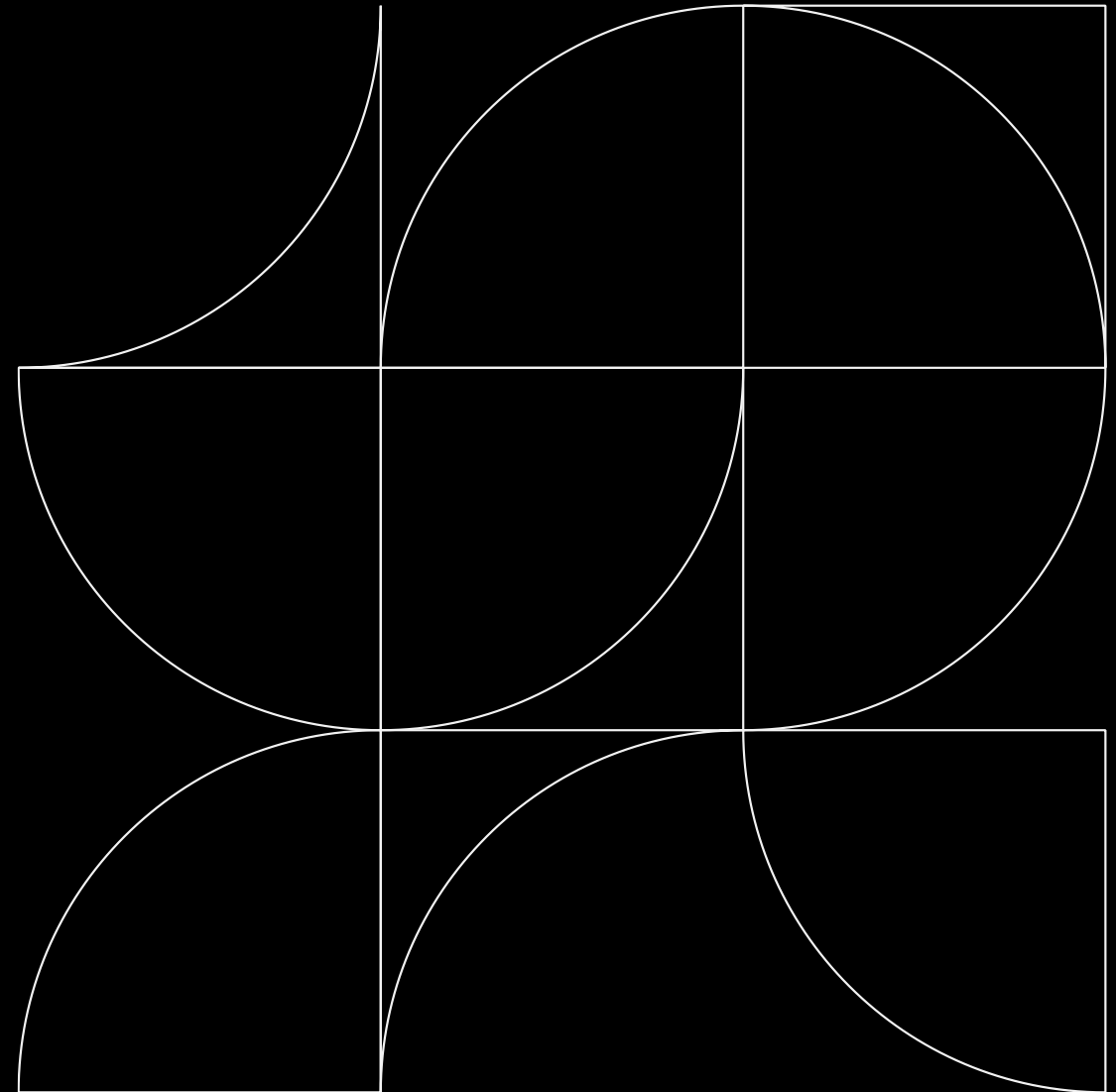
Getting Back to "Normal"

- Focus on Technical Infrastructure

  - Vet and obtain new technology as appropriate
  - Implement or enhance administrative safeguards
  - Utilize monitoring logs
  - Device management
  - Trade secret audits

- Shore up Agreements, Policies, and Procedures

  - Remote work policies
  - Mark confidential materials
  - As-needed access
  - Review and enhance agreements with employees and business partners
  - Build consensus with stakeholders

- Training, Training, Training
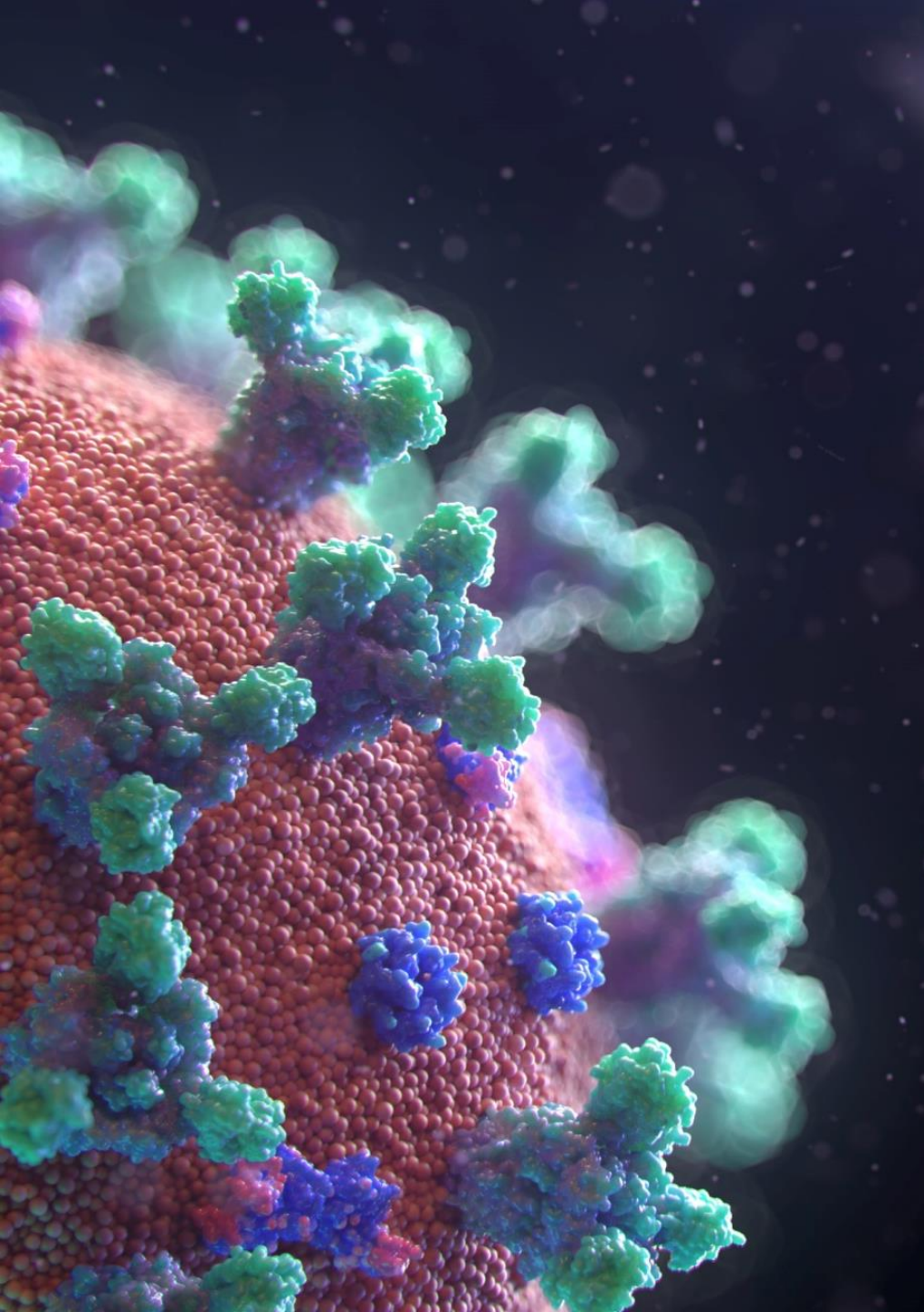
- Enforce Your Rights!

Please take our flash survey!

www.surveymonkey.com/r/GWVVCMT
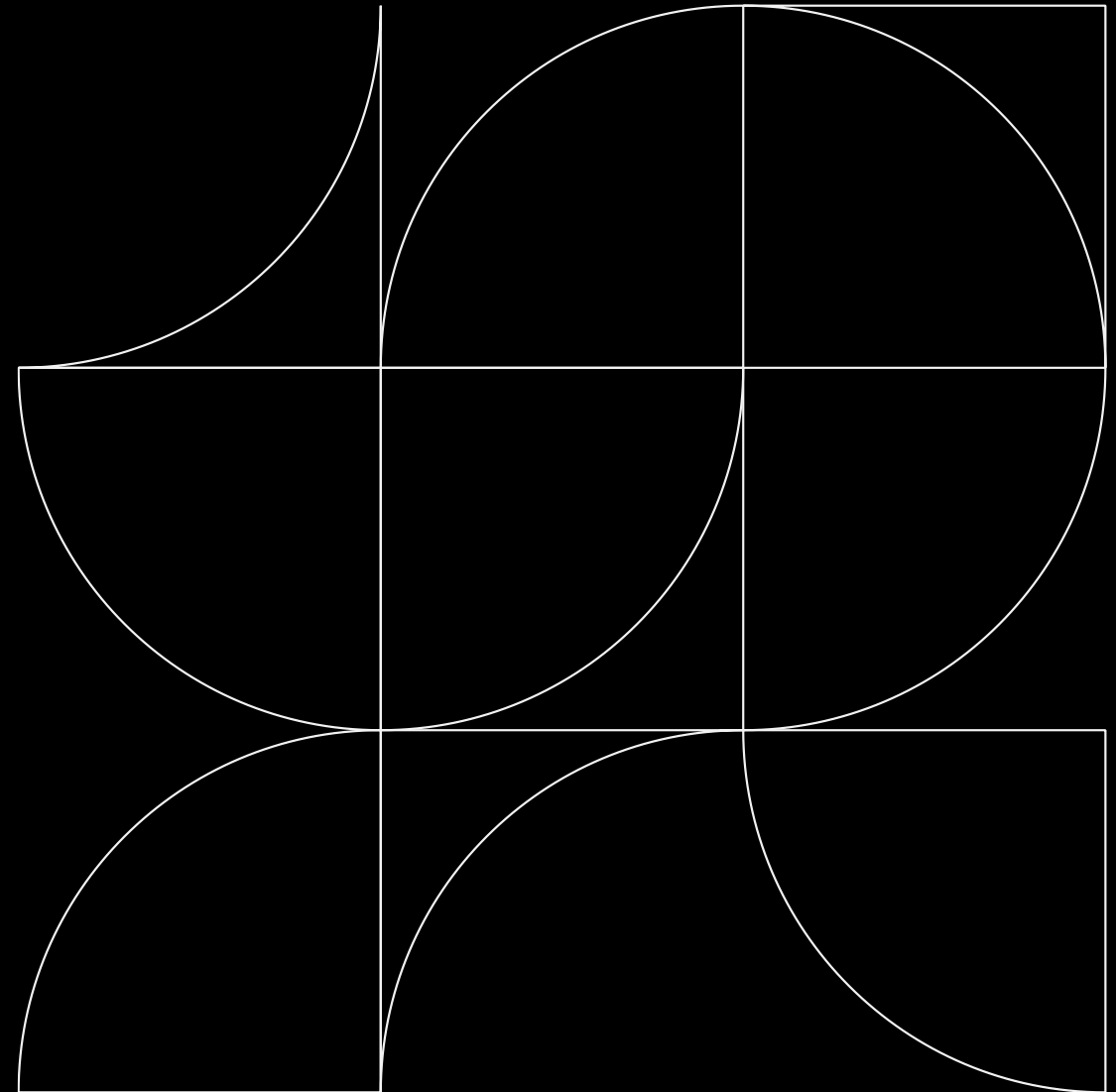
Questions?
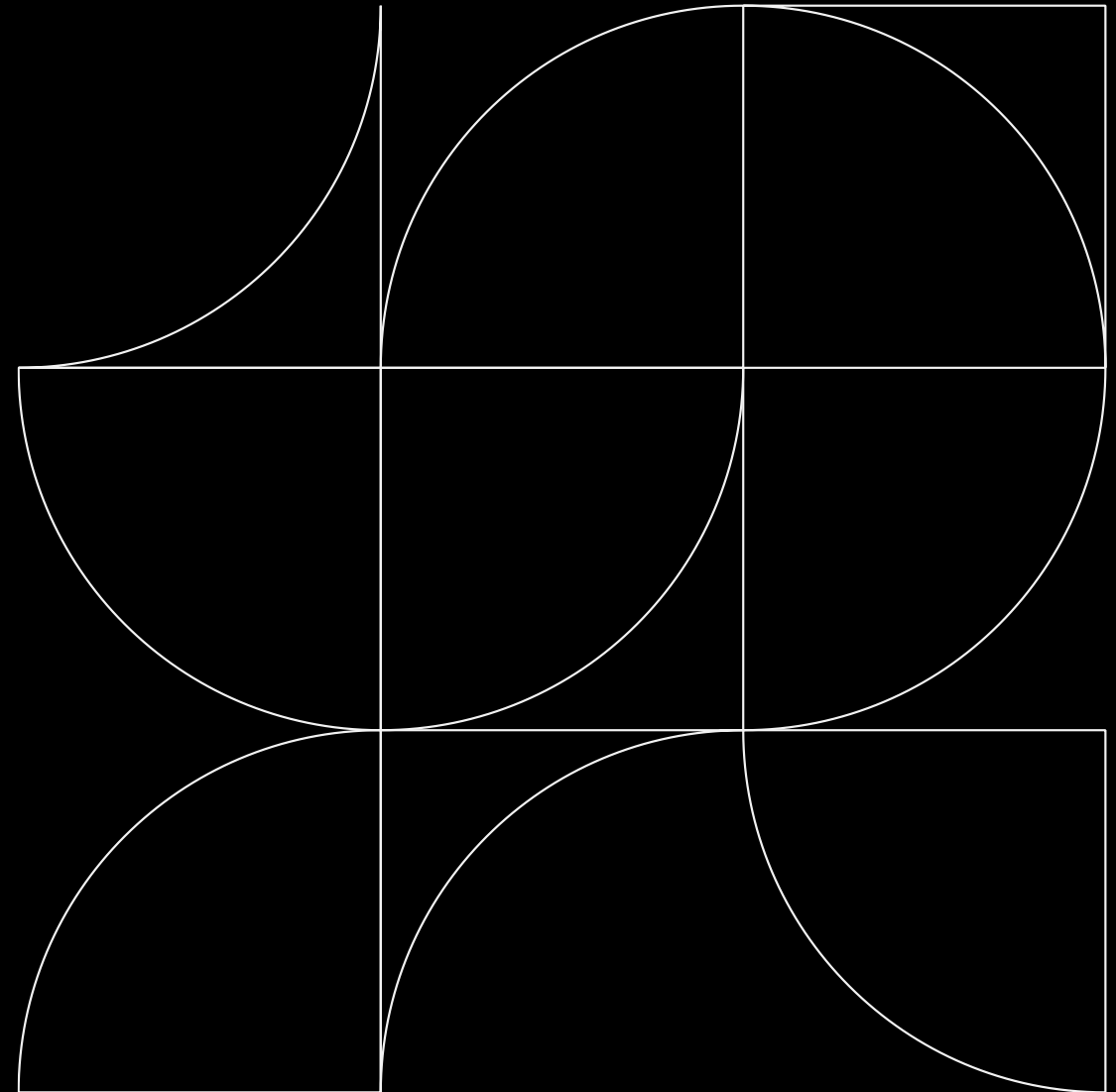
Thank You

Visit our COVID-19 Resource Center to sign up for daily updates:

www.seyfarth.com/covid19

And our blog for regular updates on trade secret and restrictive covenant law:

www.tradesecretslaw.com