



Trade Secret Quarterly

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Can Spying on Your Employee Prevent You from Obtaining an Injunction in a Trade Secrets Case?

That's the question the Third Circuit Court of Appeals recently addressed in *Scherer Design Group v. Ahead Engineering LLC*.

In that case, the defendant, a disgruntled former employee who had been the director of engineering, left the plaintiff's company after plans for him to take an ownership interest failed to materialize. The plaintiff had heard rumors of his plans before he left and asked him to sign a non-competition agreement. He refused. After he left, he started not one but two competing companies.

Shortly after his departure, the plaintiff's network administrator inspected the defendant's company-issued computer and found what the company believed to be a golden ticket: he had failed to log out of his Facebook account. The plaintiff then installed a monitoring system and was able to follow the defendant's Facebook messages, which provided explicit evidence of his plans and use of the plaintiff's trade secret information.

When the plaintiff went to the U.S. District Court seeking an injunction, the defendant argued that it should be denied under the doctrine of unclean hands. He argued that the plaintiff's spying had invaded his privacy. The District Court rejected that argument and granted the injunction. The Third Circuit affirmed that decision.

The Third Circuit recognized that a party asserting an unclean hands defense must establish that the opposing party committed an unconscionable act and that the act is

related to the claim upon which equitable relief is sought. But it also noted that that defense is not absolute. Instead, the unclean hands doctrine is just one of the factors a court must consider in deciding whether it should grant injunctive relief. The Third Circuit held that in this case, it was not convinced that the unclean hands doctrine should bar the plaintiff's right to an injunction.

The vigorous dissent in the case demonstrates that this issue is not clear cut. The dissent criticized the plaintiff for engaging in an external fishing expedition rather than simply conducting a forensic review of its own company-issued computer and other assets.

Practical tip: An examination of a departing employee's computer, phone, social media and other electronic resources is key in trade secret enforcement matters. However, consult counsel before embarking on any investigation on your own, including reviewing the employee's laptop. Searching the computer yourself can change the metadata, and engaging in your own spying activities could lead to legal complications.

Could Your Trade Secrets Be Compromised by a FOIA Request?

That's the question the United States Supreme Court is currently grappling with.

Oral arguments were heard in April in the matter of *Argus Leader Media v. US Department of Agriculture*, a case that centers on the issue of when a governmental entity can withhold information under an exemption to the Freedom of Information Act (FOIA). The court is considering whether

information should be withheld only when there is a substantial likelihood of competitive harm if the information is released, or whether to embrace a broader approach. That broader approach, advocated by the government, would set forth a two-prong approach that looks at a private entity's protection of records it submits and an agency's representation of how it would handle them. The court heard arguments that it should consider both the private entity's efforts to keep secret the proprietary information it shares with the government and its efforts to communicate that information in confidence.

Analysts believe that the justices appeared likely to endorse this broader reading of a FOIA exemption for confidential commercial information. However, we will know for sure only after a ruling is released.

Practical tip: When submitting information to a governmental entity in connection with a charge, a subpoena or any other request, make sure your company articulates the confidential nature of the information and takes adequate steps to request that the government maintain that confidentiality.

Senators Call for Crackdown on Non-Competes

A bipartisan group of senators has asked the Government Accountability Office (GAO) to investigate the use and alleged abuse of non-competition agreements. In their letter to the GAO, the senators allege that while non-competition agreements are intended to protect companies' trade secrets, they are now being used arbitrarily with lower-level, lower-wage employees. Republican Sen. Todd Young of Indiana and Democratic Sen. Chris Murphy of Connecticut cited statistics showing that 12% of workers earning less than \$20,000 and 15% of workers earning between \$20,000 and \$40,000 are subject to non-competition agreements. The senators cited concerns that large-scale use of non-competition agreements could slow economic and wage growth, reduce productivity and competition, and create barriers to entrepreneurship and innovation.

The senators have asked the GAO to review available research on the use of restrictive covenants and their impact on the workforce. Specifically, they requested that the GAO assess:

- what is known about the prevalence of non-competition agreements in specific fields, including low-wage employees;
- what is known about the effects of non-competition agreements on the workforce and the economy, including employment, wages and benefits, innovation and entrepreneurship; and
- what steps states have taken to limit the use of non-competition agreements, and what is known about the effect these actions have had on employees and employers.

It is expected that the GAO will take months just to develop a protocol for the scope of this investigation, so it could be a year or more before there is any information about the results of this research. However, this represents the latest in a growing bipartisan trend to limit the use of non-competition agreements. As outlined in [last quarter's publication](#), many states have enacted limitations on the use of non-competition agreements. This request to the GAO follows a move by Republican Sen. Marco Rubio of Florida to introduce a bill that would block the use of non-competition agreements with lower-wage earners.

Practical tip: This growing trend toward limiting use of restrictive covenants underscores the importance of only using non-competition restrictions with employees who could pose a legitimate threat to your business if they were to go to work for your competitor.

FOR MORE INFORMATION

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