



Trade Secret Quarterly

Winter 2019

Reliance on Technology May Compromise Your Ability to Protect Your Trade Secrets

The use of smartphones, tablets, laptops and other personal devices in the workplace is commonplace. But allowing your employees to access trade secret information on them without implementing appropriate restrictions or protections could be fatal to a later enforcement action.

A recent decision by the Eleventh Circuit Court of Appeals underscores a company's obligation to take sufficient steps to protect its electronic data if the company later wants to seek protection for its misappropriation. In *Yellowfin Yachts, Inc. v. Barker Boatworks, LLC*, Yellowfin's former vice president of sales, Kevin Barker, was accused of using its trade secret information to start his own competing company.

Among the information at issue was customer data, including each customer's contact information and detailed purchasing history and specifications, that was available to just 5 percent of Yellowfin's employees. A username and password were required to access the data, and it was not accessible by or shared with third parties. Nonetheless, the Eleventh Circuit found that Yellowfin could not prevail on a misappropriation claim based on Barker's alleged theft of this information because it did not take adequate steps to protect it. The court found that Yellowfin encouraged Barker to keep customer information on his cellphone and personal laptop, yet it did not mark the information as confidential, did not instruct Barker to secure the information on his personal devices, and did not instruct him to return or delete the information when he left the company. Based on these facts, the court found that Yellowfin "effectively abandoned all oversight in the security" of the customer information.

The *Yellowfin* decision is a stark reminder that the time to protect your trade secrets is **before** they walk out the door. Implementing and enforcing well-crafted protection policies that specifically address the use of both company and personal electronic devices helps ensure that the technology that fuels your business cannot be used to destroy it.

Your Customer List Is a Trade Secret, Isn't It?

The answer: It depends. This very question has produced varying outcomes in recent months.

For instance, courts including the U.S. District Court for the Southern District Court of Florida considered the amount of resources expended in developing and maintaining the customer list. In *JetSmarter Inc. v. Benson*, the court found the plaintiff's customer list was a protectable trade secret because of the manner in which it was compiled, its content, the restricted access to the list and the measures taken to safeguard the information.

In that case, the plaintiff was able to show that it devoted substantial resources to developing and maintaining a customer list that contained not just names and telephone numbers, but also particular clients' purchasing histories and specific preferences. The court also noted that the plaintiff limited access to the list and maintained it on a restricted, password-protected system.

On the flip side, other recent decisions have found that a bare-bones compilation of just names and contact information is not a protectable trade secret, even if it would be time-consuming and difficult to replicate. For example, in *Duo-Fast Carolinas Inc. v. Scott's Hill Hardware & Supply Co.*, the Superior Court of North Carolina rejected the plaintiff's claim that its customer list was a trade secret,

even though the evidence showed that the customers were residential construction contractors who could only be identified by visiting construction sites and talking to workers.

In light of these varying outcomes, a company should not assume that a court will automatically find its customer list to be a trade secret, even if it has taken appropriate steps to protect the list's secrecy. The lesson from these recent cases is that you should consider beefing up protected customer lists with information beyond mere names and contact information to increase the likelihood that the list will constitute a trade secret.

No-Poaching Agreements Remain in the Spotlight

One of 2019's first cases addressing post-employment restrictions held that a no-hire agreement between companies is unenforceable as a matter of law. In *Pittsburgh Logistics Systems, Inc. v. Beemac Trucking, LLC*, an *en banc* panel of the Superior Court of Pennsylvania invalidated a contractual provision between a logistics provider and a trucking company with which it did non-exclusive business. The service contract contained a no-hire provision that prohibited the trucking company from hiring the provider's employees or former employees for a period of two years following the contract's termination.

The trial court declined to issue a preliminary injunction to enforce this provision, and the Superior Court affirmed the decision, stating, "We believe these types of no-hire contracts should be void as against public policy because they essentially force a non-compete agreement on employees of companies without their consent, or even knowledge, in some cases."

This decision follows a promise by the U.S. Department of Justice and the Federal Trade Commission to bring criminal antitrust charges against businesses that strike no-poaching deals, and it joins a growing line of opinions.

There will be even more focus on this issue in the coming months. The private plaintiff's bar recently filed a series of class action suits alleging that employers violated the Sherman Act by agreeing to make each other's workers off-limits. Among the most notable of these cases is a trio of

lawsuits pending in Kentucky federal court against pizza maker Papa John's.

The lesson to be learned from these cases is that a company should concentrate on appropriately tailored non-compete or non-solicitation agreements with its employees, rather than gambling on protections from no-poaching agreements.

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