



Trade Secret Quarterly

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Is Remote Work Compromising Your Trade Secret Information?

Although COVID-19 vaccines are stretching further and further into our population, it appears that many more employees will continue to work remotely even once COVID releases its grip on the workforce. Some studies suggest that three times as many employees will work from home post-pandemic as did pre-pandemic. But all of that working from home offices and kitchen tables could compromise the integrity of their employers' trade secret information.

Trade secret information is not entitled to protection unless reasonable efforts are taken to maintain its secrecy. The new question is what are "reasonable" efforts in a post-COVID remote workplace? The recent case *Smash Franchise Partners LLC v. Kanda Holdings, Inc.* focused on that question. The plaintiff sued a potential franchisee for misappropriation of trade secrets after he started his own competing business allegedly using information he obtained during Zoom calls between Smash and interested franchisees. The court determined that the misappropriation of trade secrets claim failed, in part, because Smash had not taken reasonable steps to protect its alleged trade secrets. The culprit in this case was that Zoom call.

What the court found problematic was that the information shared on the call was freely provided to anyone who had expressed interest in a franchise and completed an introductory call. There was no participant password requirement, the company did not follow its own procedure to take roll at the beginning of the call to determine who

was on it, and Smash did not even use Zoom's security features. In the new world where remote meetings are standard fare, this is a wakeup call.

Beyond security issues with the various internet platforms, just the act of working remotely creates risks to the integrity of an employer's trade secret information. There is an uptick in hacking incidents. An employee may be handling trade secret documents and information remotely and potentially exposing them to others who might also be working at their residence. There could be cross-mingling of proprietary information between company and personal devices. The employer has less visibility into employees' communications with third parties. This list is certainly not exhaustive but underscores the need for employers to reevaluate the steps they are taking to protect trade secret information in this altered environment.

Employers should take a number of steps to reasonably protect their information in the remote workplace, including establishing minimum home network security requirements, examining authentication procedures, considering prohibiting or restricting the transfer of proprietary information, and implementing routine or issue-based monitoring of employees' access to proprietary information.

Employees are using and handling trade secret information in an uncharted way. It is incumbent upon employers to make sure their trade secret policies and protections are keeping pace.

Refining Trade Secret Identification After Discovery May Be Admissible

A familiar defense in trade secret cases is that the plaintiff has failed to identify the trade secret at issue with sufficient particularity. The demand for identification is always balanced against further disclosure of the information, particularly in the initial stages of litigation. A recent holding by the Ninth Circuit determined that it is permissible to refine trade secret information after discovery.

In *InteliClear LLC v. ETC Global Holdings, Inc.*, the Ninth Circuit held that the lower court had abused its discretion in granting summary judgment without affording the plaintiff the opportunity to conduct discovery. The court noted that refining trade secret identification throughout the discovery process “makes good sense” and discussed the “inherent tension between a party’s desire to protect legitimate intellectual property claims and the need for intellectual property law to prevent unnecessary obstacles to use for competition.”

While identifying the trade secret at issue is critical in the initial pleading stages, this case provides support for avoiding a dispositive motion when there is an initial challenge to the sufficiency of that identification.

Legislative Attacks on Non-Competes Continue

Illinois is the latest state to consider placing significant restrictions on the use of non-compete agreements. The Illinois House of Representatives has introduced a bill that would prohibit employers from utilizing non-compete agreements with employees who earn less than \$75,000 per year and would eliminate non-solicitation agreements for employees who earn less than \$45,000 per year. The bill also has strict notice requirements and would render non-compete and non-solicitation agreements unenforceable unless employers expressly advise employees to consult with counsel before executing the agreements and provide new employees with copies of the agreements at least 14 calendar days before they begin work. Finally, the bill has a fee-shifting provision that would allow an employee to

obtain attorneys’ fees if the employee prevails in a lawsuit brought by the employer to enforce a restrictive covenant.

While this legislative initiative sounds harsh for employers, a competing bill introduced by the Illinois House would prohibit the use of restrictive covenants for Illinois employees altogether. Both bills are in the initial stages.

These bills come on the heels of the District of Columbia’s new non-compete legislation. Under the D.C. law, employers may not utilize non-compete provisions that prohibit employees from simultaneous or subsequent employment by another person or entity. The ban applies to all employers that operate in D.C., without regard to size, as well as to any employee that performs work in D.C. The prohibitions on restricting even simultaneous employment make this law among the strictest in the nation. Employers are also prohibited from maintaining workplace policies – written or unwritten – with similar restrictions. The only saving grace for employers is that the law is not retroactive.

This growing trend could soon have national implications. President Biden’s campaign platform called for federal legislation to eliminate all employee non-compete agreements other than what it called “the very few that are absolutely necessary to protect a narrowly defined category of trade secrets.” This pledge comes against a backdrop of prior congressional attempts to pass non-compete restrictions. The last congressional effort was in October 2019 with a bipartisan bill that would have generally prohibited any company from entering into, enforcing or threatening to enforce a non-compete agreement with any individual who works for the company.

If new proposed legislation comes forward, it would almost certainly have the administration’s support and could affect employers nationwide.

Given the widespread trend already at the state and local levels, employers should review their restrictive covenants to ensure they comply with all application limitations.

FOR MORE INFORMATION

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