



Banking On Your Executive's Compliance With the Trade Secrets Law

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On behalf of the Commission on the Theft of American Intellectual Property, the National Bureau of Asian Research published its findings in 2013. Members of the Commission included **Craig R. Barrett**, former Chairman and CEO of Intel Corporation. According to the Commission, the scale of international theft of American intellectual property is unprecedented at over \$300 billion per year. The reports state: "Virtually every sector and technology is attacked — from low-tech to high-tech; from agricultural machinery and biotechnology to wind-power generation; from mobile phones, computers and televisions to chemical compounds and aeronautics." The Commission unanimously found that approximately \$1.1 billion of the annual losses to U.S. corporations is attributable to the misappropriation of trade secrets.

U.S. banks are no less immune to these losses than any other institution that relies on proprietary data in doing business. It's vital for banks to have established protocols for exiting and onboarding C-suite employees to and from competitors. When banks hire a key employee from a competitor, they bear special risks of legal action by the former employer. Such lawsuits include contract claims for breach of confidentiality and non-competition covenants in addition to more irksome claims afforded by the governing state's law protecting trade secrets. The onboarding bank, despite good faith efforts to prevent breaches of covenants given the former employer, is exposed to claims that the key employee-defector will predictably use, if not disclose, protected trade secrets. A bank's due diligence pursued at the time of assessing risk and value of taking on such a key employee should include a legal analysis of the potential merits and costs of temporary restraining orders and injunction litigation triggered by a new hire. The onboarding bank should also be prepared to respond to the transferring executive's request for a defense and indemnity agreement in the event the former employer sues both the hiring bank and the new hire. Highly valuable, in-demand executives often gain such defense agreements in exchange for other considerations.

Even in the absence of an enforceable non-compete agreement, placing the new hire in a department of the hiring bank that is unrelated to other departments in competition with the new hire's former employer may not prevent lawsuit by the former employer. These types of suits, depending on your perspective, interfere with the hiring bank's managerial, operational, and sometimes its IT security functions to gain a court order assuring that the hire's alleged foreseeable use of trade secrets cannot be of any benefit to the hiring bank.

What about banks that are losing or have terminated a C-suite employee that is moving to a competitor? If there is a valid non-compete and prevailing arguments concerning specific trade secret data that the departing employee knows and could

likely use, then immediate demand will be made on both the new employer and the former employee to comply with the covenant. If the risk of use or disclosure of trade secrets can be demonstrated, even in the absence of a valid non-compete, state trade secret statutes can result in at least a preliminary bar on the employment sought or obtained by the former employee with a competitor.

If there is a contract of employment requiring written advance notice of intent to accept an offer of employment with a competitor for the key banking employee being separated, then the key employee will be reminded of this obligation at departure. If not, then at departure, demand can be made (though compliance is discretionary) to give advance written notice of an intent to accept employment with the competitor. In the best of cases, such notice gives counsel an opportunity to negotiate a resolution short of litigating to a court order or, more costly, to a jury verdict.

Last, and not least, courts will hear and make awards against the hiring entity where there is no enforceable non-compete and no misappropriation of any trade secret under the right circumstances. One case in point is an opinion issued in March 2014 by a Delaware court in *Wayman Fire Protection, Inc. v. Premium Fire & Security LLC*. In that case, the employer sued its former employee who assisted in the formation and operation of a competing entity selling building fire safety systems. The court found that employees, even those exposed only to confidential information and not trade secrets, occupy a position of trust and confidence. The fiduciary duties of honesty and loyalty owed to the employer during employment prohibit certain types of conduct in preparing for an exit. For instance, the transport of employer files at departure that are not protected trade secrets may nevertheless give rise to breach of fiduciary duty claims and claims of conversion, among other tort remedies.

In short, forming and ending C-suite employment relationships in the financial industry involve demands, claims and litigation, despite best efforts to manage the risks. Depending on whether you lost or gained the executive, even in a manner where no non-compete has been signed and qualifying trade secrets are nowhere to be found, tort remedies are just as sweet to the courts as contract and statutory claims. ■

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