

FOLEY EXECUTIVE BRIEFING SERIES



**Suing Your Former Employees For
Starting A Competitive Company?
What You Need To Know**



Speakers: Russell Beck
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Hypothetical: Background

- My Word!, Inc. ("My Word") is a software company. Its principal product is a program for improving high school and college students' grammar, called "Speak Better Now."
- My Word was started in 2000 by CEO Stephanie Jobs and chief software developer (Will Gaits).
- Gaits can be somewhat difficult to work for and is constantly talking about how, as one of the founders of the company, he stands to make a fortune with his options when the company eventually goes public.
- Chris Wozniak, who has been an assistant software developer with the company since 2003, but has no options in the company, believes that she has contributed more to the development of Speak Better Now than Gaits has, and views her assistant software developer position as a dead-end job.
- In 2003, My Word, hired its first sales person, Peter Cellar. The company now has four sales people, each of whom is responsible for a specific region of the country.
- Since 2003, Cellar has developed a significant customer base for Speak Better Now. As a consequence, Cellar has asked for options in My Word. While the company appreciates Cellar's efforts, it believes that Speak Better Now practically sells itself, and that, as a result, Cellar is extremely well-paid through his commissions. Given the company's view, Cellar asked for a new commission structure, which My Word summarily rejected. However, the company did promote Cellar to Vice President of Sales, and now has the rest of the sales staff reporting to him.
- This year, My Word has finally turned a profit, with revenues expected to exceed projections by 30 percent.



Hypothetical: Recent Developments

- Just over two months ago, Wozniak resigned. She told Jobs that she was going to spend time traveling the Far East.
- One month ago, Cellar resigned, giving two weeks notice and telling Gaits that he was going to join his family's business, selling insurance.
- Two days ago, one of My Word's sales persons learned from a prospective client that there was another company, Good Grammar Corp. ("Good Grammar"), selling a similar product.
- When Jobs was told of this by the sales person, she promptly looked at Good Grammar's website and saw a picture of Wozniak and Cellar, identified as Good Grammar's co-founders.
- Jobs asked Gaits to review Wozniak's and Cellar's emails, at which point they learned that, while still employed by My Word, Wozniak and Cellar had incorporated Good Grammar and worked on Good Grammar's website.



Can My Word sue Wozniak, Cellar, and/or Good Grammar?

“[A]n employee upon terminating his employment may carry away and use the general skill or knowledge acquired during the course of the employment. . . The right (of an employee) to use (his) general knowledge, experience, memory and skill . . . promotes the public interest in labor mobility and the employee’s freedom to practice his profession and in mitigating monopoly.”

Dynamics Research Corp. v. Analytic Sciences Corp., 9 Mass. App. Ct. 254, 267-68 (1980).



What claims does My Word have?

- Breach of fiduciary duty?
- Theft of trade secrets?
- Tortious interference?



Breach of Fiduciary Duty

“An at-will employee may properly plan to go into competition with his employer and may take active steps to do so while still employed. . . . The general policy considerations are that at-will employees should be allowed to change employers freely and competition should be encouraged. If an employer wishes to restrict the post-employment competition activities of a key employee, it may seek that goal through a non-competition agreement.”

Augat, Inc. v. Aegis, Inc., 409 Mass. 165, 172 (1991) (citations omitted).



Theft of Trade Secrets

What is a “trade secret?”

- “[A]nything tangible or intangible or electronically kept or stored, which constitutes, represents, evidences or records a secret scientific, technical, merchandising, production or management information, design, process, procedure, formula, invention or improvement.” G.L. c. 266, § 30.
- “A trade secret may consist of any formula, pattern, device or compilation of information which is used in one’s business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it.” Restatement of Torts § 757, comment b.
- Trade secrets include compilations of even public information used in a business if the “information is, as a result of a business’ efforts, combined in a unique way.” Picker International Corp. v. Imaging Equipment Services, Inc., 931 F. Supp. 18, 38 (D. Mass. 1995).



Did My Word take the right steps to protect its secrets?

Six factors:

- The extent to which the information is known outside the business.
- The extent to which the information is known by employees and others involved in the company's business.
- The extent of measures taken by the company to guard the secrecy of the information.
- The value of the information to the company and to its competitors.
- The amount of effort or money expended in developing the information.
- The ease or difficulty with which the information could be properly acquired or duplicated by others.



Additional Facts: Contracts

- Cellar signed a one-year non-competition agreement upon his hire by My Word. The agreement prohibits him from competing in his territory in the United States. The Good Grammar website says that Good Grammar does business everywhere in the United States, but the territory for which Cellar was responsible while at My Word.
- Cellar also has a non-disclosure agreement by which he agreed not to use My Word's confidential information and/or trade secrets for any purpose unrelated to My Word's business.
- Wozniak had no non-competition agreement, but did sign a non-disclosure agreement identical to Cellar's.



Does My Word have new claims?

- Breach of non-competition agreement?
- Breach of non-disclosure agreement?



Nuts and Bolts

- Non-compete Agreements
 - Requirements – Time, Geographic, Restricted Activities
 - Legitimate Business Interests
 - Touchstone: Reasonableness
- Non-Disclosure Agreements
 - What it does and does not do
 - Inevitable Disclosure Doctrine
- Other restrictive covenants
 - Garden Leave Clauses/Notice Provisions
 - Non-solicitation (of employees or customers)
 - No-hire agreements
 - Forfeiture for competition



The plot thickens . . .

- Wozniak and Cellar have begun calling their former colleagues at My Word and recruiting them to join Good Grammar.
- Cellar contacted My Word's clients before leaving My Word. Initially, he said only that he would send his contact information when he started his new job. In his last few days with My Word, he told customers that he opening Good Grammar with Wozniak and explained that the company would have low overhead, enabling them to offer a competitive product that would undercut My Word's pricing.



New assumptions . . .

- Instead of being a new start-up, Good Grammar has been a competitor of My Word for years. My Word has always had the edge, having been the first to obtain financing, to get its products to market, and to sign up its first customer.
- Good Grammar recruits and hires Wozniak and then it hires Cellar, even though Good Grammar is aware of Cellar's non-compete.



Additional Claims?

- Tortious interference?
- Unfair business practices – G.L. c. 93A?



Any problem with the following?

When Jobs learns about Good Grammar and that Wozniak and Cellar are attempting to recruit My Word's employees, Jobs calls a company-wide meeting and says, "Don't worry about Good Grammar. They won't be around very long. Our lawyers are going to fix this and shut them down."

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