

PALMER KAZANJIAN
WOHL HODSON LLP
2023

CONFIDENTIAL TRADE SECRETS & NON-COMPETE COVENANTS

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Palmer Kazanjian Wohl Hodson LLP **Attorneys**

Founded in 2000 by Floyd Palmer
& Larry M. Kazanjian.

Clients range from small
businesses to Fortune 500
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Committed to meeting the
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Palmer Kazanjian Wohl Hodson LLP **Attorneys**

Larry M. Kazanjian, Esq.

Founding Partner of Palmer Kazanjian Wohl Hodson.

25+ years' experience advising executive management, in-house corporate legal counsel, labor relations administrators, and human resource professionals

Member of the Labor and Employment Law Sections of the State and County Bar Associations

University of the Pacific, McGeorge School of Law





TRADE SECRETS

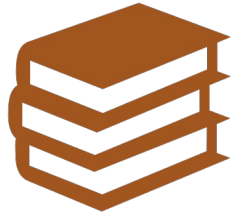
WHAT IS A “TRADE SECRET” IN CALIFORNIA



California Uniform Trade Secrets Act (UTSA) (Civil Code § 3426 *et seq.*)

- Comprised of “information”
- Not “generally known”
- Derive “independent economic value” from the fact that it is a secret
- Subject to “reasonable” efforts to “maintain secrecy”

TRADE SECRET EXAMPLES



- Advertising plans, strategies, techniques
- Cost information
- Negative research
- Pricing information
- Product plans and development
- Profit margins
- Salaries paid to employees
- Supplier lists
- Technical know-how

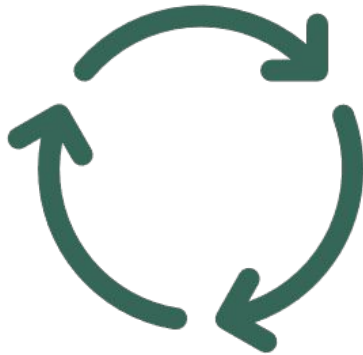
PROTECTING TRADE SECRETS FROM MISAPPROPRIATION



Misappropriation includes:

- Acquisition of a trade secret by a person who knows or has reason to know that the trade secret was acquired by improper means
- Disclosure or use, without consent, by one who got trade secrets by improper means, or had reason to know another person got the trade secret by improper means, or that person had a duty to protect the trade secret
- Set up procedures to restrict access to information that could be considered trade secrets. Record who has access to the restricted information.

MISAPPROPRIATION CLAIM



- Elements of a Claim
 - Plaintiff owned the trade secret
 - Information was a trade secret at time of misappropriation
 - Defendant improperly acquired, used, or disclosed the trade secret
 - Plaintiff was harmed
 - Defendant's acquisition or use was a substantial cause of the harm
- A claim arises only once: when the secret is initially misappropriated
- 3-year statute of limitation

EXAMPLE

BIBA AND MATTONE RESTAURANTS



- Biba Caggiano opened Biba restaurant in Sacramento in 1986.
- She authored and published at least 7 cookbooks with her own recipes.
 - Over 600,000 copies sold.
- Restaurant closed in 2020 after Biba's death.
- The next year, former employees opened Mattone Restaurante. Its menu was largely based on Biba's menu.
- Biba's family sued Mattone for misappropriation of trade secrets, i.e. Biba's recipes.
- Case settled outside of court, likely because the recipes were not trade secrets: they were intentionally published and widely known to the public.

EXAMPLE BREAKFAST RESTAURANTS



- Breakfast Restaurant successfully operated for several years in Sacramento. Its leadership was comprised of the founder and two partners.
- The partners signed an operating agreement which classified menu items and recipes as intellectual property belonging to the founder.
- The two partners left the company and opened a competing breakfast restaurant business.
- The competing business used nearly identical menus, same ingredient descriptions, item names, and menu organization.
- Case is currently pending.



NON-COMPETE COVENANTS

BROAD RESTRICTIVE COVENANTS ARE GENERALLY INVALID IN CALIFORNIA



“Every contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void.”
Bus. and Prof. Code § 16600.

- Broad covenants not to compete are generally invalid.
 - Unfair Competition Law. Bus. and Prof. Code § 17200
 - Wrongful Termination Action
 - Choice of Law Provisions

WHEN NON-COMPETE COVENANTS MAY BE ENFORCEABLE



- Trade secret protections
- Sale of Business Interest
- Dissolution or Withdrawal of Partnership

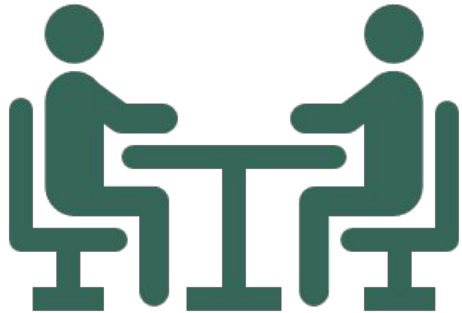
Non-compete covenants are still subject to reasonable limitations of reach, activity, and duration.

Better for covenant to be conservative rather than overly-restrictive.



SOLICITATION OF EMPLOYEES

SOLICITATION OF EMPLOYEES



Recent developments in employee solicitation laws now generally permit the solicitation of employees.

Contracts restricting solicitation violate employees' right to find lawful employment. Bus. & Prof. Code § 16600.

Limitations to general rule:

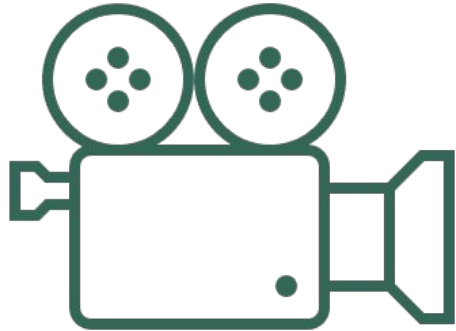
- Employees' Duty of Loyalty to Employer
- Interference With Contract

EXAMPLE

AMN HEALTHCARE, INC. V. AYA HEALTHCARE SERVICES, INC.

- Defendants were recruiters working for AMN, a company placing nurses in hospitals nationwide.
 - Significantly, nurses placed in hospitals are still considered *employees of AMN* while working at the hospitals.
- Defendants' AMN employment contract prevented individual defendants from soliciting AMN's employees to leave AMN for at least a one-year period after leaving AMN.
- Defendants left AMN and joined Aya at different times for different reasons.
- After leaving AMN, defendants contacted several AMN nurses to convince them to find placements through Aya.
- AMN sued, claimed breach of contract barring solicitation and misappropriation of trade secrets under UTSA.
- Court held in favor of defendants:
 - AMN prohibited from enforcing employee non-solicitation agreement.
 - No misappropriation of trade secrets because nurses' posted information regarding AMN on publicly available social media.

TWENTIETH CENTURY FOX FILM CORP. V. NETFLIX, INC.



- Netflix hired two Fox execs who were under fixed-term employment contracts.
- Fox claimed that Netflix was interfering with a lawful contract.
- Netflix argued the fixed term contracts were unenforceable as a restraint on employee movement. Noted that execs were underpaid for their position, and that Netflix was offering higher salary.
- The court held in Fox's favor. Although unreasonable restrictions on employee freedom of movement is against California's public policy, it is important for companies to have stability and predictability in their contracts.
- Where there is a fixed-term employment agreement, employers cannot poach employees because it will upset stability and predictability in contracts.



SOLICITATION OF CLIENTS

SOLICITATION OF CLIENTS



- In this context solicitation is defined as:
To ask for with earnestness, to make petition to, to endeavor to obtain, to awake or excite to action, to appeal to, or to invite.
- Not solicitation:
 - Merely informing customers of one's former employer of a change of employment, without more.
 - Willingness to discuss business upon invitation of another party.

EXAMPLE

BLUE MOUNTAIN ENTERPRISES, LLC V. OWEN



- Defendant founded and owned an HVAC company, Blue Mountain.
- Defendant contracted with an investment group: he would transfer half his ownership interest to them, but he would remain as CEO.
- Contract prohibited defendant from soliciting clients for *three years after leaving company*.
- Defendant was later fired after he engaged in self-dealing with company funds.
- Defendant formed Silvermark Construction Services, a competing company.
- Defendant sent emails to Blue Mountain's current clients inviting them to work with Silvermark.
- Blue Mountain sued defendant claiming breach of contract and intentional interference with contractual relations.
- Court found emails to be solicitations in violation with the contract:

BLUE MOUNTAIN ENTERPRISES, LLC V. OWEN

“To my friends; past and potential future clients; and the general public.”

The letter declared that Owen had recently sold all his interests in Blue Mountain, and that he had “made the decision to launch a new enterprise with greater perspective, more resources and a much stronger team. Conscious of the environment, evolving technology and the communities we work in, this new venture allows me to incorporate what I have learned from where I have been, while considering where the market and our world is headed.”

The letter introduced by name two former Blue Mountain employees who had joined Silvermark, “who combined, bring over 100 years of experience in the HVAC industry.”

“I thank everyone who supports us in this transition and look forward to the remarkable opportunities we have ahead with our new company, Silvermark Construction Services, Inc.”

EXAMPLE SOLICITATION

“After almost fifteen years as both an agent and policyholder, I have left ACI and am very pleased to announce the formation of an independent insurance agency.

I shall continue to specialize in Credit Insurance but will now primarily be representing F & D, who is offering companies a very interesting alternative to the types of policies being written by both ACI and Continental. If you would like to learn more about the F & D policy, I will be happy to discuss it in detail with you when you are ready to review your ongoing credit insurance needs at renewal time.

In the meantime, ACI will assign a new agent to your policy. If I can be of assistance to you during the transition period or answer any questions for you at any time, please do not hesitate to call me.

I have really enjoyed our past association and hope we don't lose touch!”

EXAMPLE *NOT* SOLICITATION

“John D. Shilling and Cynthia L. Kenyon, formerly with Moss Adams, are pleased to announce the formation of a new partnership: Shilling, Kenyon & Co., Certified Public Accountants, Lloyds Bank Building, One Almaden Blvd., Suite 1110, San Jose, CA 95113, (408) 295-3822.”



THE END OF NON-COMPETE COVENANTS?


THE END OF NON-COMPETE COVENANTS?



- January 2023 – FTC proposes nationwide ban on most employment non-compete covenants.
- February 2023 – Bipartisan group of senators introduce “Workforce Mobility Act of 2023.”
 - Would ban the use and enforcement of post-employment non-compete covenants.
 - Would require posting notices of unenforceability of non-compete covenants in the workplace.
- May 2023 – NLRB releases memo saying non-compete agreements violate NLRA except in narrow exceptions.
- Employees can report your business to the California AG’s office, so it is urgent that you ensure your employment contracts conform with laws and policy.



QUESTIONS AND ANSWERS



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