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USA 2019

AUGUST 3-8, 2019
MANDALAY BAY / LAS VEGAS

HACKING YOUR NON-COMPETE

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AGENDA

- Background
- Best/Worst Salesperson in the World
- How To Do Everything Wrong
- Giving Away Your Github
- 3 Guys And An LLC
- Quick Examples
- The Checklist

Gregory Stone, Esq.



- Greg Stone is a partner and serves as Co-Chair of the firm's Technology and Intellectual Property Practice Group
- 20 years of experience in the patent and general intellectual property fields, including his tenure as a United States Patent Examiner in the general mechanical and biomedical device arts
- Started in technology as a Mechanical Engineer working for Department of the Army

Brian Dykstra



- CEO of Atlantic Data Forensics, Inc.
- Co-Founder of Mandiant
- Over 20 years of experience in forensics investigations and data breaches
- Previously worked as a US Army Counterintelligence and Technical Surveillance Countermeasures Special Agent



The Best/Worst Salesperson in the World

- Company A is planning to fire The Worst Salesperson in the World
- Salesperson finds out he's going to be fired and interviews with Company B
- Company B hires The Best Salesperson in the World
- Company A finds out that Company B is hiring the Worst Salesperson in the World
- Company A tries to enforce a Non-Compete they downloaded from the Internet and hilarity ensues



The Case of the Internet Non-Compete

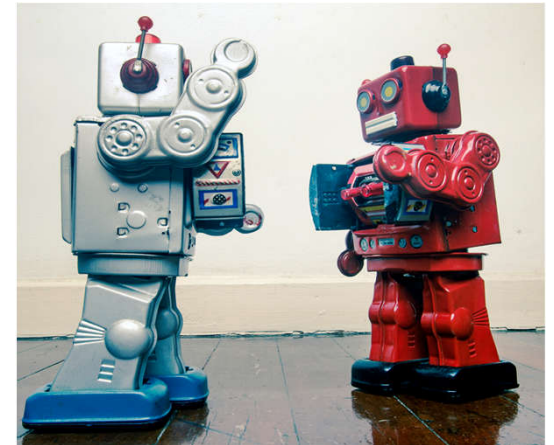
- The Worst Salesperson in the World (WSW) was not allowed to work for anyone that Company A considered to be a competitor
- Company A claimed that the WSW had downloaded sensitive client data and provided it to Company B
- Company A did not provide computer equipment to the WSW so he was using a personally owned laptop during his employment with Company A

What About Company B?

- Company B hired the Best Salesperson in the World (BSW) to run lead their sales team
- Company B provided an employment offer that prevented the BSW from soliciting Company A clients or uploading any Company A data to their systems
- Company B then provided the BSW with a new laptop and a sales team to manage
- Company A's attorneys send Company B a letter stating they cannot employ the WSW and demanding that all sensitive data stolen by the WSW be returned

And the Fight...

- Company A's Good, Bad, and Ugly
 - Need policies governing data storage and handling and use of employee's own equipment / devices
 - Use of own computer doesn't make the data WSW's!
 - BUT, the rest of the data on the computer remains WSW's!
 - All of which is now under review as part of the discovery process in litigation
- Noncompete – a good idea, but enforceable?
 - Must be reasonable in scope and duration
 - “Form” agreements are never a good idea!
 - Enforceability / reasonableness can vary from state to state
 - Need to show an actual breach of the agreement



And the Fight...

- Company B's and Salesperson's Good, Bad, and Ugly
 - Confidential, proprietary, and trade secret information of Company A is off limits!
 - Sensitive client data is confidential information – taking without authorization is misappropriation
 - In case of theft of trade secret information, Company B and Salesperson could be sued for injunction preventing use, disclosure, and even continued employment
 - Potential liability of Company A to its clients for not adequately protecting their sensitive data
 - Obtaining agreement with Salesperson preventing solicitation of prior clients or using Company A's data is a good idea – but not an absolute defense

How To Do Everything Wrong



- Blackbrier Equipment has been making oil exploration equipment for the past 30 years
- The newly appointed GM notices that her sales for the quarter are off by over \$3M
- She suspects that it may have something to do with a member of the bid & proposal team that was hired by her predecessor “under a cloud” from a competing firm

The Investigation

- The GM has us look into the computers and email of the entire sales team for the previous 6 months
- We find that five members of the sales team have decided to form their own competing company while working for Blackbrier
- During the day they worked on bids for Blackbrier and at night they underbid for their company Blackhorse
- The sales team also redirected incoming work and invoices to Blackhorse



Theft is Not a Great Career Development Strategy

- Outright theft of Blackbrier's property – same as if stealing cash / equipment
 - Bid info is all confidential / proprietary, if not trade secret, information of Blackbrier
 - Double-timing employees face not only liability for damages but possible criminal sanctions / jail
 - Breach of fiduciary duty owed to the company
 - Breach of employee confidentiality agreements with Blackbrier (assuming Blackbrier obtained them when the employees were hired)
- Would obviously be good for Blackbrier to consider measures to monitor and protect against unauthorized copying and use of confidential information

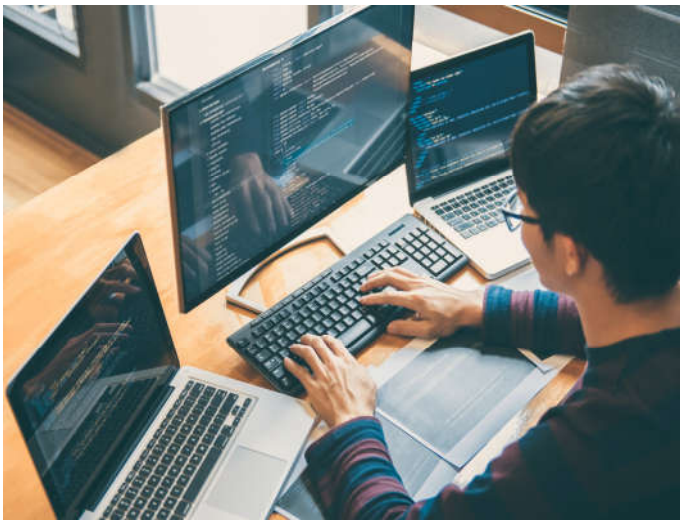
How To Do It Right

- Inform your employer that your planning to leave, Honesty is the best policy
- Don't take any confidential or proprietary information
- Negotiate a well-defined separation agreement/Limit the scope of a non-compete
- Beat them in the marketplace

Giving Away Your Github

- ServiceSoft had an interesting idea for an integrated minibar billing, tracking, ordering and refill system
- The problem was that after multiple attempts ServiceSoft wasn't able to get their idea into working software
- After some searching, they find a Developer who has an open source project that is similar to what they want to build
- The Developer agrees to work for ServiceSoft and to assist them in integrating their hardware with his software

Then It All Goes Wrong



- After working for ServiceSoft for about a year the Developer figures out that there are problems with the company that software can't fix
- The Developer terminates his employment with ServiceSoft and goes back to independent software consulting
- A couple of months after he quits the Developer receives a notice from ServiceSoft that his open source project on Github is the property of ServiceSoft and that he must take it down immediately

Who Owns What?

- Employee or Contractor designations matter!
- If Developer is an Employee working in the scope of his employment during development, something is likely the property of ServiceSoft, but what?
 - Pre-existing IP – still Developer's (absent separate agreement)
 - IP developed at ServiceSoft (not including pre-existing IP) – owned by ServiceSoft
 - But only restricts Developer from using the new, finished product (absent a noncompete) – not from using the pre-existing IP to develop another product

Who Owns What?

- If Developer is a Contractor, agreement would / should spell out ownership
 - Developer needs to detail / document pre-existing IP and carve out from what is owned by ServiceSoft
 - Expect ServiceSoft to own the end product
- In both cases, Developer needs to be careful to not use / integrate / copy ServiceSoft's confidential / trade secret information in future work
 - Make sure development is documented to have a clear trail of what's proprietary to ServiceSoft and what is not
 - Should have a clear separation agreement to avoid later questions / fights

3 Guys And An LLC

- After having worked on a SoC team for an online game company three developers decide they can build a better analyst tool than the one they are using
- The three quit the game company and work on the project for six months before they run out of money
- Two of the guys want to open source the project and one of the guys wants to sell the project to anyone that will buy it
- When the other two won't agree the third guy grabs all the source code and documentation as his own and sells it



And Then Law Suits

- The purchasing company took the position that they purchased the software and documentation from an owner of the company and any internal problems they had with the sale didn't have anything to do with the purchase
- The two developers that wanted to open source the project sued the third developer and the purchasing company
- Both the purchasing company and the newly rich third developer had plenty of money and interest in defending themselves against the law suits

Why This All Ends Badly

- Best practice would have been having formation documents (corporate bylaws or an operating agreement) spelling out what happens upon departure of a principal
 - Establish buyout provisions up-front
 - Establish requirements for key decisions (like disposition of company property, such as its IP)
 - But no time machine, so....

Why This All Ends Badly

- Rights of co-authors – absent a written agreement, the source code and documentation are owned by the co-author(s) that created them
- Each co-author then:
 - Owns an equal, undivided ownership share in the entire work
 - May, without permission of co-authors, grant non-exclusive rights to third parties
 - Has a duty to account to the other co-authors for profits from exploitation of the work
 - May assign his ownership share
- Now everyone gets to fight in court for years to come over whether each party is properly accounting to the others!

Quick Scenario 1

- My employer says that the “work for hire doctrine” means that anything I create while employed by the company belongs to them
- FALSE – “Work for Hire” is a doctrine under copyright law where any copyrightable work of employees created within the scope of that employment is the property of the lawyer
- Does this mean the code I work on at night belongs to my employer?

Quick Scenario 2

- So if the source code I wrote is copyrighted by my employer, I can't make anything like that?
- FALSE – While the code may be copyrighted the function that the software performs are not copyrighted
- A competing product (with new source) that performs the same function isn't subject to the employer copyright

What About Something My Employer Wants To Patent?

- If the innovation embodied by the software rises to the level of a patentable invention, the employee owns the invention absent a written agreement requiring assignment of inventions
- OR – where an employee is hired to invent specific things
- Absent either of these employee developed intellectual property may be used by the employee without liability to the former employer

My Non-Compete Says I Can't Work At Company X

- Employee's may sign an agreement blindly tying themselves to unnecessarily binding limitations
- Non-Compete agreements are supposed to be reasonable in scope and duration
- Sweeping descriptions designed to minimize competition risk unenforceability by attempting to control non-confidential information
- UNFORTUNATELY – A court or jury may decide what is reasonable only after costly litigation

My Former Employer Says Everything is a Trade Secret

- General information relevant to an employee's technical field, and that is known in the industry, cannot be confidential or a trade secret
- Failure of the employer to specifically identify to the employee what is confidential or proprietary information leaves the question open
- UNFORTUNATELY – A court or jury may decide what is reasonable only after costly litigation

My Former Employer Has A Policy I Never Saw

- An employer must maintain records that clearly set out policies for securing information
- An employer may be called upon to demonstrate later that they took reasonable steps to protect the information
- An employer should have physical and electronic controls to minimize the risk of intentional or unintentional exposure of confidential or trade secret information

The Checklist

- ✓ Is the information that a former employer is complaining about a trade secret or confidential information? Or is it general industry knowledge?
- ✓ If an employee's position changed over time with the former employer their original non-compete may no longer be relevant to their duties at the time of departure
- ✓ If you were required to sign an agreement when departing were you compensated or not?

The Checklist

- ✓ Is there any irreparable harm or injury to the former employee moving to a competitor?
- ✓ Does the potential harm to the former employee created by noncompetition outweigh the harm to the former employer?
- ✓ The former employer buried the restrictive covenants in another, otherwise unrelated agreement
- ✓ The former employer simply waited too long to take action against the former employee and their new employer

The Checklist

- ✓ The former employer has previously only selectively enforced identical noncompetition agreements
- ✓ The junior or low-compensation level of an employee makes a restrictive covenant unreasonable
- ✓ The enforcement of the restrictive covenants against the employee are simply unfair

Things To Do OR Not Do

- DO – Maintain a log of public information, resources, open source used in your work so you can readily establish the public nature of those materials
- DO – Document your individually developed intellectual property while moonlighting or working on projects outside of work
- DO NOT – Make copies of customer lists, vendor lists, suppliers, business plans, technical notes, source code, etc. when planning to leave

QUESTIONS?



Gregory Stone
gstone@wtplaw.com
(410) 659-6402



Brian Dykstra
brian.dykstra@atalanticdf.com
(410) 540-9000