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9 Ways To Upgrade Calif. Employee Confidentiality Agreement

By **Dylan Wiseman** (May 30, 2018, 1:07 PM EDT)


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When was the last time your business reviewed its employee confidentiality agreements? There have been some significant changes in the law, and updating agreements is a quick and efficient way to make certain your company's confidential information remains protected. Likewise, updating your company's confidentiality agreement may likely provide a major advantage if your business decides to pursue former employees over alleged breaches.

Having taken multiple trade secret and unfair competition matters through verdict, here are my practical, battle-hardened recommendations to help protect an employer's confidential information.

1. Have a separate, stand-alone confidentiality agreement with employees. While having confidentiality provisions in employee handbooks or in a general employment agreement is a common practice, having a separate agreement is preferable. It's preferable because it sends a message to employees their confidentiality obligations are distinct from other terms and conditions of their employment, and survive the termination of their employment.

2. In the separate confidentiality agreement, include an attorneys' fee clause favoring the prevailing party. In more than 20 years in this field, I have never seen an employee allege a breach of the confidentiality agreement. It's always the employer who alleges that an employee took or used the employer's confidential information. Thus, the risk of including an attorneys' fees clause in a separate, stand-alone confidentiality agreement is minimal. Some statutes also provide a basis for recovering attorneys' fees. However, the standard to recover fees under many unfair competition statutes is higher and often more complex. For example, in the recent trade secret dispute of Citcon USA LLC v. RiverPay Inc., in the U.S. District Court for the Northern District of California, the defendant allegedly avowed to take "10 times revenge" upon its competitor, but that type of overt maliciousness is uncommon. Under a separate, stand-alone confidentiality agreement, the employer need only "prevail" to recover its attorneys' fees and costs. A separate, stand-alone confidentiality agreement with an attorneys' fee provision gives the employer significant leverage if it needs to pursue litigation. An attorneys' fee provision in a separate, stand-alone confidentiality agreement also operates to deter employees from copying files, records and from taking equipment when they depart.

3. Define "confidential information" with some measured precision. Every workplace has certain files or records that if taken or disclosed would cause injury to the bottom line. Generally speaking, the more

specific the categories of “confidential information,” the more likely that a court will enforce the agreement. It is also important to realize that a company may want a confidentiality agreement with its sales personnel that is different from its confidentiality agreement with its research and development personnel.

4. Protect the content of an employee’s memory of the confidential information. Under California law, confidential information and trade secrets can be found in electronic files, hard-copy records, and in an employee’s memory. Most employees don’t understand that their knowledge of the formula they’ve been working on is just as protected as what’s housed on a USB drive. This is always a good provision to point to during an exit interview to remind departing employees of their obligations.

5. Make it abundantly clear that the employer owns all of the “confidential information.” Sales personnel are famous for believing that the customers they service for the business are their “friends” or “their customers,” and that they somehow own the “confidential information” about those customers. Likewise, millennials, who were raised around open-source notions of ownership, struggle to grasp that they have no legal interest in their employer’s “confidential information.” Under California law, everything that an employee acquires by virtue of their employment, except for their compensation, belongs to the employer. Including a term to that effect can help prevent expensive litigation with misguided former employees who have an incorrect understanding about what they own.

6. If the employees reside or are working in California, have a California choice of law term. This is the term at the very end of the agreement that establishes what state’s law will apply. California’s courts will enforce confidentiality agreements and award damages when they’re breached. California judges are always more at-ease applying California law. To comply with recent amendments to the Labor Code, businesses should specify that California law applies to the agreement for California employees and residents. Nonetheless, even after the changes to California’s Labor Code, I routinely find out-of-state employers attempting to bind California residents under laws from other states.

7. Comply with the new federal trade secret statute. In 2016, the federal courts finally opened up to trade secret misappropriation claims. Under the Defend Trade Secrets Act, employers must notify employees in writing that certain conduct is protected and can’t form the basis of a lawsuit. If the employer doesn’t include those notice terms, it can’t recover its attorneys’ fees if it pursues litigation. Your business may not expect to find itself in federal court litigating a trade secrets claim, but there’s no real downside to including the federal notice language to agreements, particularly when you’re undergoing a much needed overhaul of dated confidentiality agreements.

8. Assess the risks of including a customer nonsolicitation clause. In California, customer nonsolicitation clauses are disfavored, unless the business can legitimately assert that the identities of its customers are protectable as a trade secret. While there are countless fields where the customers are well-known and finite, and the competitors are all fishing in the same small pond, there are other industries (insurance brokers, financial services, mortgage brokers, professional services, subscription services, staffing, etc.) where it takes a significant amount of time, effort, and resources to identify and cultivate a clientele. For businesses which fall into that category, they should consider the risks and benefits of adding a customer nonsolicitation clause.

9. Store copies of the signed confidentiality agreements in the cloud or in an external storage device. Employees have the right to inspect their personnel files, particularly regarding records they’ve signed. Over the years, I have counseled several employers who find that shortly after an employee asks to inspect their personnel files, the confidentiality agreements “go missing.” Further, if a company needs to

rely upon its confidentiality agreement because it fears a former employee is exploiting its confidential information, the business will need to locate it quickly. Litigation in this area often burns hot and bright right after the lawsuit is filed, and having key documents readily accessible enables is often critical.

Implementing these nine actions will greatly reduce the risk of your business being embroiled in a lengthy, expensive court battle with an employee who departs with your company's confidential information.

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