Trade Secrecy and Non-Competition Covenants in Washington
By
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INTRODUCTION

American businesses have witnessed an explosion in non-competition and trade secret disputes in the employment arena. *The Wall Street Journal* has headlined suits in the web technology, insurance, photographic imaging, paper products, retail, food products and petroleum industries. Increasing workforce mobility, escalating competition and the importance of technology mean that businesses must develop and protect intellectual assets. Moreover, businesses seeing employees must be wary of stepping into trade secret disputes by virtue of hiring employees from other companies. The recent litigation Wal-Mart v. Amazon.com, which this firm handled, concerned many of these issues. The following highlights factors one should consider when an employee leaves your company, or when you are considering recruiting from other companies or corporations.

Your Rights As an Employer.

1. THE EMPLOYER/EMPLOYEE RELATIONSHIP.

a. Confidentiality. The employer/employee relationship gives rise to "confidences." E.I. Dupont Power Company v. Masland, 244 U.S. 100, 102 (1917). The duty of an employee "not to disclose the secrets of his employer may arise from either an express contract, or may be implied from the confidential relationship existing between the employer and employee." Nowogroski, Inc. v. Rucker, 137 Wn.2d 427, 437 (1999). The nature of the relationship imposes a duty on employees and former employees not to use or disclose the employer's trade secrets. Id., 439 at n.3 ("The employment relationship is a confidential relationship which gives rise to a post-employment duty not to disclose trade secrets.") An

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employee's use of an employer's trade secrets or confidential customer information can be enjoined even in the absence of a restrictive covenant. Id., at 437.

b. Duty of Loyalty. Employees are not permitted to undertake or participate in activities adverse to the interests of the employer during the course of employment. See Restatement (Second) of Agency, § 387 (1958) ("Unless otherwise agreed, an agent is subject to a duty to his principal to act solely for the benefit of the principal in all matters connected with his agency."). For example, an employee breaches the duty of loyalty when, during employment, she solicits the employer's customers or diverts business, luring away co-workers to a competing enterprise, failing to disclose matters adverse to the employer and that impair the employee's duty of loyalty, taking undisclosed payments from a third party who is doing business with the employer, or divulging the employer's confidential information to others. Restatement (Second) of Torts, § 395 confirms that an employee owes a duty to the employer not to use or communicate information confidentially given to him by the employer or acquired by him during the course of his employment.

c. Organizing Competing Businesses. It is a breach of the employer's duty to set up and operate a competing business while employed by another. However, an employee may take limited, preparatory steps effective only upon the termination of employment. Merely informing customers of one's former employer of a change of employment, without more, is not solicitation. Nowogroski, at 440, n.4. Nor is making arrangements for office space, inquiring about benefit packages, investigating computer systems, and meeting with accountants in preparation for competing businesses. See, e.g., Mercer Management Consulting, Inc. v. Wilde, 920 F. Supp. 219, 234 (D.D.C. 1996).

d. Modification of Common Law By Agreement. In addition to common law and statutory protections, employers can also seek to protect their rights through contractual agreements. Examples of these include non-competition agreements, non-disclosure agreements, and confidentiality agreements. Properly drafted agreements may enhance the protections already afforded by law. This is discussed more fully below, and in other sections of this handbook.

2. WHAT IS A PROTECTABLE TRADE SECRET?

As a matter of policy and case strategy, it is important to make to the court understand the competing interests of protecting secrets versus allowing fair competition. The United States has a free enterprise system in which businesses are generally free to compete with one another, within certain boundaries. Free enterprise promotes competition and rewards creativity. Business competition benefits consumers by bringing them better products at lower prices. However, competition naturally creates friction between businesses competing for their share of the market. Because of this, business law attempts to promote fair competition. Business laws of the type involved herein are intended to promote fair competition while not stifling competition.

There are several types of statutes which afford businesses some protection. The most prominent of these are (1) Patents; (2) Copyrights; (3) Trademarks; and (4) the Uniform Trade Secrets Act. Patents are like an exclusive license. When issued, the government provides the patent holder the exclusive rights to a particular product for a set term; however, the information concerning the product is available to the public. That information can simply not be used to create an identical competing product during the life of the patent.

Copyrights also protect information which is published and readily available to the public. Copyrights prevent others from publishing the same work, or substantially similar works, within the life of the copyright. Trademarks similarly protect images which identify a particular manufacturer as the source of the work or product. For example, "Finger Lickin' Good" identifies Kentucky Fried Chicken**.**

Statutes protecting trade secrets do not prevent another competitor from using the same information if he independently derives it or acquires it through legitimate means. Rather, it protects information which is not generally known and which the owner takes affirmative actions to keep secret. When he does so, his rights do not expire after a term, as with patent rights. For example, Coca-Cola's formula is not patented, it is a trade secret. Anyone who can develop this formula on his own is free to sell a competing product. Had the formula been patented, Coca-Cola would have had an exclusive right to the beverage, free from competition, but only during the life of the patent**.**

a. <u>Washington Adopted the Uniform Trade Secrets Act ("UTSA")</u>. Washington and forty other states and the District of Columbia have adopted the Uniform Trade Secrets Act. RCW 19.108. Under the Uniform Trade Secrets Act, to state a misappropriation of trade secret claim: (1) the subject of the claim must qualify as a statutory trade secret; (2) the owner of the secret employed reasonable measures to maintain its secrecy; and (3) defendants' conduct constitutes statutory misappropriation. <u>See Western Medical Consultants, Inc. v. Johnson</u>, 835 F. Supp. 554, 557 (D. Or. 1993), *aff'd,* 80 F.3d 1331, 1337 (9th Cir. 1996).

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b. <u>Trade Secret Definition</u>. RCW 19.108.010(4) defines trade secret as information, including a formula, pattern, compilation, program, device, method, technique, or process that: (a) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and (b) is the subject of efforts that are reasonable under the circumstances to maintain secrecy.

A plaintiff who seeks relief for misappropriation of trade secrets must identify the trade secrets and carry the burden of showing that they exist." <u>MAI Systems Corp. v Peak Computer, Inc.</u>, 991 F.2d 511, 522 (9th Cir. 1993). The Ninth Circuit requires very specific proof of trade secrets to avoid summary judgment. <u>Imax Corp. v. Cinema Technologies, Inc.</u>, 152 F.3d 1161, 1164 (9th Cir. 1998). In <u>Imax</u>, the court affirmed summary judgment finding "[t]he plaintiff 'should describe the subject matter of the trade secret with sufficient particularity to separate it from matters of <u>general knowledge in the trade</u>.'" <u>Id.</u> (<u>quoting</u> <u>Universal Analytics v. MacNeal-Schwendler Corp.</u>, 707 F. Supp. 1170, 1177 (C.D.Cal.1989), <u>aff'd</u>, 914 F.2d 1256 (9th Cir. 1990).

However, not every run of the mill "secret" qualifies as a legally protectable "trade secret." Rather, the "secret" must convey some competitive advantage:

> Not every commercial secret . . . qualifies as a trade secret. It is well known that in business most matters are considered confidential; however, only secrets affording a demonstrable competitive advantage may be properly considered trade secrets.

1 Roger M. Milgrim, Milgrim on Trade Secrets § 1.03 (1998). Factors to consider in determining whether a protectable trade secret exists are discussed below.

(1) Information Not Readily Ascertainable or Generally Known.

(a) Information Not Generally Known. Some of the factors included in the concept of information "not generally known" include:

(i) The information must be novel. Confederated Tribes of Chehalis Reservation v. Johnson, 135 Wn.2d 734, 958 P.2d 260 (1998); Buffets, Inc. v. Klinke, 73 F.3d 965 (9th Cir. 1996). General "know how", skill and experience gained while employed are not protectable trade secrets. Western Medical Consultants, 80 F.3d 1331, 1337 (9th Cir. 1996), affirmed 80 F.3d 1331, 1337 (9th Cir. 1996) (finding marketing knowledge was not protected). A combination of several techniques, even though all of them are known, may constitute a trade secret. Machen, Inc. v. Aircraft Design, Inc., 65 Wn. App. 319, 828 P.2d 73 (1992).

(ii) Customer lists where the information is readily ascertainable is not a trade secret. Boeing v. Sierracin Corp., 108, Wn.2d 38, 49-50, 738 P.2d 665 (1987); National School Studios, Inc. v. Superior School Photo Service, Inc., 40 Wn.2d 263, 242 P.2d 756 (1952). For example, information ascertainable from public sources such as trade directories, ,phone books, are probably not trade

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secrets. G. Peterson, Recent Developments in Trade Secret Law in an Information Age, at 438 (1998). Accord Ed Nowogroski Ins. v. Rucker, 137 Wn.2d 427, 441 (1999) ("If information is readily ascertainable from public sources such as trade directories or phone books, then customer lists will not be considered a trade secret and a prior employee, not subject to a noncompetition agreement, would be free to solicit business after leaving employment"); Elmer Miller, Inc. v Landis, 625 N.E.2d 338, 342 (Ill. App. 1993) ("lists which can be duplicated by reference to a phone book or professional directory are not sufficiently secret to be trade secrets under the Act"); 14 U.L.A. 439 (1990).

(iii) If separate techniques are generally known, the combination of them nevertheless may create a trade secret if all, as a whole, are not generally known. Machen, Inc. v. Aircraft Design, Inc., 65 Wn. App. 319, 828 P.2d 73 (1992). But a technique generally known for one purpose—making mirrors—does not necessarily make the technique a trade secret if it is used for a different purpose—making door windows. Precision Molding and Frame, Inc. v. Downing Sales, Inc., 77 Wn. App. 20, 888 P.2d 1239 (1995).

(iv) Information published in trade journals or disclosed through intentional displays or in marketing materials or carelessness may indeed by "generally known." UTSA, § 1, comment.

(b) Not Readily Ascertainable. Some of the factors included in assessing this criteria are: the ease or difficulty with which the information could be properly acquired or duplicated by others; and the extent to which the information is known outside of the business. Reverse engineering raises issues which often turn on the facts of the case. If a trade secret or product may be reverse engineered, it may not qualify as a trade secret. See, e.g., Boeing v. Sierracin Corporation, 108 Wn.2d 38, 43, 50, 738 P.2d 665 (1987). But if one involved in he reverse engineering relies upon information not readily accessible, the reverse engineering may be improper.

(2) Reasonable Efforts to Maintain Confidentiality in the Workplace. One attempting to protect a trade secret bears the burden to prove the alleged trade secret was subject to reasonable measures to maintain its secrecy. Western Medical Consultants, Inc. v. Johnson, 835 F. Supp. 554, 557 (D. Or. 1993), affirmed 80 F.3d 1331, 1337 (9th Cir. 1996).. There can be no question of reasonableness without evidence of measures. "'To be a trade secret, the information must, of necessity, be a secret: specifically there must be evidence presented that sufficient measures have been taken to guard the secrecy of the information and preserve its confidentiality.'" Hockenbury v. Sowders, 633 F.2d 435, 443 (6th Cir. 1980)(quoting Kubik, Inc. v Hull, 224 N.W.2d 80 (1974)).

This requirement does not mean the employer must take all optimal precautions available. See James Cooley, Trade Secrets, 2-27 to 2-28 (1997). However, the employer must be consistently diligent in protecting information. If the employer freely releases the disputed information to the public, the employer has no claim under trade secret law. Examples of precautions include: (a) requiring employees and licensees to sign confidentiality agreements; (b) investing in physical security measures; (c) designing products to not reveal trade secrets upon inspection; (d) during the hiring process determining if the applicant has contractual or other restrictions. This not only identifies potential disputes but evidence of sensitivity to confidentiality issues. The prospective employee should also be evaluated more closely or with skepticism if he or she seeks "indemnification." During the hiring process the prospective employee should also be advised that he will have access to confidential information and then explain the importance of methods of maintaining the secrecy. A signed acknowledgement that the employer's secrecy rules have been explained to the employee are helpful. Confidentiality agreements (to be discussed later) are also recommended. Consider a provision requiring that the employee inform the current employer as to the identity of new employers and the position accepted.

a. Physical Restrictions. The employer should limit access to trade secrets to those who have a "need to know." Employers should not circulate documents indiscriminately. Restricting access to facilities, and controlling all access within, may also prove helpful. Protective measures range from color coding documents and files, using badges, posting signs, sign-out logs, to computer security passwords and using paper that cannot be photocopied.

b. Terminating Employees. Exit interviews should be conducted to ensure the employee returns all confidential and proprietary materials and software. This is particularly important for the telecommuting employees or employees with home offices. You should inquire regarding future employment to identify potential conflicts. Refusal to respond or provide accurate information may be useful later to show ill intent or likelihood of disclosure.

c. Maintaining Secrecy with Third Parties. Evidence that the employer restricted access to vendors, suppliers, consultants and acquirers is helpful, especially where a confidentiality agreement has been entered into.

d. Other Secrecy Security. Activities may include: (1) training employees regarding the protection of confidential and trade secret materials; (2) integrating trade secret policies with comprehensive and restricted email, fax, voicemail and intranet and internet usage policies; (3) evaluate document and database retention and destruction policies; (4) restrict use of personal computers off premises—airports are target areas for stolen PCs; (5) use non-competition, no solicitation and no piracy agreements; (6) require pre-approval and monitoring of speeches and publications; (7) conduct trade secret audits to evaluate risk areas; (8) consider creating an inventory of trade secrets; (9) consider arbitration provisions, but always reserve the ability to seek injunctive relief from the court; and (10) consider forfeiture of benefits provisions upon breach; (11) apply it universally—not just against those who can reap economic gain from it. Courts are more accepting of discouraging rather than prohibiting post-employment competition. See, e.g., Schlumberger Technology Corp. v. Blaker, 859 F.2d 512, 517 (7th Cir. 1988) (employee not entitled to benefits upon breach even though noncompetition clause was overly broad). A good example of reasonable efforts is addressed in Wade Cook Seminars, Inc., v Mellon, __Wn. App. __, 1999 WL 211831 (Div. 1 1999)(Unpublished)(Oral nondisclosure agreements may satisfy the reasonable efforts to maintain secrecy requirement)

e. Insufficient Efforts to Maintain Secrecy. These include keeping information unlocked, failing to control the number of copies, disclosure of information at trade shows, disclosures to vendors or third parties. Machen, Inc. v. Aircraft Design, Inc., 65 Wn. App. 319, 327-28, 828 P.2d 73 (1992). Placing the description of a secret manufacturing process in the employee handbook may be evidence that the company was not exercising reasonable efforts to maintain secrecy. See, e.g., Precision Molding, 77 Wn. App. 27-28.

3. THE ECONOMIC ESPIONAGE ACT OF 1996.

This Act criminalizes two types of conduct. The first, relating to economic espionage, prescribes misappropriation, copying, destruction or transmission of trade secrets for the benefit of a foreign government, foreign instrumentality, or foreign agent, as well as receipt, purchase or possession of any misappropriated trade secret. 18 U.S.C. § 1831(a). The Act imposes penalties for economic espionage up to 15 years imprisonment and a fine of up to $500,000 for individuals and up to $10 million for organizations.

The Act also creates a crime of theft, which requires proof of intent to convert a trade secret related to a product in interstate commerce for the economic benefit of anyone other than the owner of the trade secret and the knowledge that the offense will injure any owner of the trade secret. 18 U.S.C. § 1832. Only five Espionage Act prosecutions were announced in the first 18 months of the statute's existence. Although the enactment of the Act adds another layer of concern for an employer contemplating a raid of a competitor, prosecutions are likely to be few and far between in the short term.

4. EXAMPLE OF TRADE SECRETS.

a. Customer Lists. Customer lists can be protected trade secrets if they meet the criteria of RCW 19.108.010(4). Nowogroski, Inc v. Rucker, 137 Wn.2d at 440. Some customer lists which are the result of effort and expense on the employer's part may be trade secrets deserving protection, while others are readily ascertainable outside of the business and not trade secrets. Id. at 441. If a customer lists contains information not generally known in the trade and if the proprietor has taken reasonable steps to preserve the secrecy of that information, then such lists are protectable trade secrets. Id. See also Jewett-Gorrie Ins. Agency, Inc. v. Visser, 12 Wn. App. 707, 531 P.2d 817 (1975) (public employees identities are easily ascertainable and are not secrets); National School v. Superior School Photo Service, 40 Wn.2d 263, 242 P.2d 756 (1952)(published directory of public schools not trade secret).

b. Not Available in Trade Journals. If information is readily ascertainable from public sources, such as trade directories or phone books, then customer lists will not considered a trade secret. A prior employee, not subject to a noncompetition agreement, would be free to solicit business after leaving employment. Id. at 441.

c. Criteria. Whether a customer list is protected as a trade secret depends on three factual inquires: (1) whether the list is a compilation of information; (2) whether it is valuable because it is unknown to others; and (3) whether the owner has made reasonable attempts to keep the information secret. Nowogroski, at 427.

d. Personal Contact Exception. Even if a customer list is a trade secret, a former employee may still use it if he had personal contacts with the customers. See, e.g., F. Huebner, Trade Secrets and Noncompetition Agreements: A Washington Law Primer, Washington State Bar, at 34 (1995). An employer may protect itself against the personal contact exception by: (1) requiring the employees to sign a noncompetition agreement; and (2) arguing that the exception does not apply in Washington. This is because the case relied upon for the "personal contact" exception pre-existed the Uniform Trade Secrets Act.

e. Memorized Information Can Be a Secret. The Uniform Trade Secrets Act does not distinguish between written and memorized information. The Act does not require a plaintiff to prove actual theft of conversion of physical documents embodying the trade secret information to prove misappropriation. Nowogroski at 445. Consequently, trade secrets can be misappropriated by a taking in either written or memorized form. Id. at 447.

f. "Solicitation vs. Announcement." The Court recognizes a difference between active solicitation of customers by former employees and a "professional announcement of a change of employment." Asking customers earnestly for their business or soliciting them is different from "merely informing customers of one's former employer of a change in employment, without more." Id. at 440.

g. Formulas and Processes Like the Design of Cockpit Windows Can Be Trade Secrets. See generally, Boeing, 108 Wn.2d 38.

5. DETERMINING WHO OWNS TRADE SECRETS, INVENTIONS AND DISCOVERIES.

a. General Rule. Employees hired to perform general research usually get to own the invention. There is an exception, however, under RCW 49.44.140 which allows contractual agreements between the employer and employee under certain circumstances to assign ownership of inventions to the employer. Absent an agreement, if the employee created something independent of his employer with his own resources on his own time, or before working for the employer, the trade secret or patent belongs to the employee even though it is related to the employer's business. Milgrim, at 5-87. There are, however, three exceptions to the rule.

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(1) Shop Right Doctrine. The Shop Right Doctrine may grant the employer an irrevocable, nonexclusive license to practice the trade secret, patent or invention. The doctrine applies when the employee used employer's resources (property or personnel), or some of the time for which the employer paid him or her. Milgrim at 5-76.

(2) Employed to Invent. If an employee is hired to invent a specific thing or process, the employer will own the invention. Parties can change their rights by a contract. Milgrim at 5-59; Green v. Rocket Research Corp., 12 Wn. App. 613, 530 P.2d 1340 (1975).

(3) Statutory Assignment of Inventions and Developments. Employers and employees may contract to assign ownership of trade secrets or inventions. Assignment agreements are the safest practice because it alleviates ambiguities as to ownership of the trade secret. RCW 49.44.140 states that an assignment of an employee's rights to an invention is unenforceable with respect to inventions for which no equipment, supplies, facilities, or trade secret information of the employer was used and which was developed entirely on the employee's own time, unless the invention relates directly to the business of the employer, or to the employer's actual or demonstrably anticipated research or development, or the invention results from any work performed by the employee for the employer.

The employer has a duty to advise the employee that the assignment agreement does not apply to inventions described in RCW 49.44.140. See Machen, 65 Wn. App. 319 (dismissing breach of written confidentiality claim and ownership of invention agreement because the agreement failed to disclose the employee's rights to inventions as required by the statute).

Courts usually construe assignment agreements against the employer, so careful drafting is advised. Green v. Rocket Research Corp., 12 Wn. App. 613, 530 P.2d 1340 (1975) rev. denied, 85 Wn.2d 1011 (1975).

b. Employee Rights With Regard to Post-Employment Discoveries/ Inventions.

(1) Generally. Inventions developed by former employees belong to that former employee unless the inventions were derived from the former employer's trade secrets or there was a valid assignment to the employer of any post-employment inventions by that former employee. Assignments of post-employment inventions should state that (a) it covers the inventions conceived during employment, (b) specify a reasonable period (one year is reasonable) after the termination of the employment, during which the employee's inventions are assigned to the employer, and (c) state that the agreement covers only inventions reasonably related to the former employment. See, e.g., GTI Corp. v. Calhoon, 309 F. Supp. 762 (S.D. Ohio 1969) (five-year post-employment assignment period deemed unreasonable).

(2) Copyrights. Copyright protection is available for literary, audiovisual and other works of expression, including computer firmware, software, documentation and marketing materials. Ideas, processes, systems, etc. are specifically excluded from the scope of copyright protection. 17 U.S.C. § 102.

The employer or other person for whom the for-hire work was prepared is considered the author for copyright purposes. 17 U.S.C. § 201(b). Work for hire consists either of "a work prepared by an employee within the scope of his or her employment," or works specifically ordered or commissioned. 17 U.S.C. § 101.

(3) Employment vs. Independent Contractor Test. To determine whether someone is an employee or a contractor, the Courts use the following factors: (1) The skill required, the source of the tools or instruments, and the location of the work; (2) the duration of the relationship and whether the hiring party has the right to assign additional projects to the hired party; (3) the hiring party's right to control the manner and means of creation; (4) the extent of the hired party's discretion over when and how long to work; (5) the method of payment; (6) the hired party's role in hiring and paying assistants; (7) the provision of the employee benefits; and (8) the tax treatment of the hiring party. Community for Creative Nonviolence v. Reid, 490 U.S. 730, 751-52 (1989).

Work is in the scope of the employment if: (1) It is of the kind of work the employee is employed to perform, (2) it occurs substantially within authorized work, hours an space, and (3) it occurs at least in part by a purpose to serve the employer. City of Newark v. Beasley, 883 F. Supp. 3 (D. N.J. 1995).

Copyright ownership sometimes is also complicated when a work consists of material created by several people (joint works) and when an author creates a work for publication by another—either as an employee or an independent contractor. Works may also be categorized as collective works, compilations or derivative works. See 17 U.S.C. § 101.

(4) Software Protection.

(a) Generally. Computer software presents special problems for trade secret protection because innovative elements of software may embody no more than unpredictable concepts, and because software itself may be legitimately reverse engineered. Paul Goldstein, Copyright, Patent, Trademark and Related State Doctrines, 867 (Foundation Press 1993). Courts facing the question of trade secret protection focus on the typical trade secret criteria, including whether the software was gained at the expense of the plaintiff owner and whether the plaintiff owner intended to keep it confidential. Jostens, Inc. v. National Computer Systems, Inc., 318 N.W.2d 691 (Minn. 1982). The second and third criteria are readily satisfied by proof of a software product's market share and proof of the manufacturer's development efforts. The fourth criteria can be satisfied by demonstration of efforts to main secrecy.

(b) Software Implemented Business Systems Are Patentable. In State Street Bank and Trust Company v. Signature Financial Group, Inc., 149 F.3d 1368 (Fed. Cir. 1998), the court of appeals for the federal circuit held that a computer system for controlling financial operations fell within the scope of the patent statute as delineated by 35 U.S.C. § 101. An invention that involves some sort of abstract idea can still obtain patent and protect so long as the claim for that invention includes some practical application of that idea. In other words, inventors may use the patent laws to protect inventions producing "a useful, concrete and tangible result." But see PTO Examination Guidelines for Computer Related Inventions (October 1998). The reasoning used in the PTO literature ignores State Street and sometimes contradicts its holding.

6. THE INEVITABLE DISCLOSURE DOCTRINE.

Under this doctrine, a former employee may be restricted in post-employment activities if he or she will "inevitably disclose" the trade secrets of the former employer in the new position.

The basic elements for establishing the doctrine include: (1) The former and the new employer are competitors; (2) the employee's responsibilities in the new position overlap those in the prior position such that the employee "inevitably" will use or disclose the former employer's trade secrets in the new position; and (3) the new employer has not taken sufficient, demonstrable steps to prevent any misappropriation from occurring. See, e.g., Pepsico, Inc. v. Redmond, 54 F.3d 1262, 1267 (7th Cir. 1995). In such cases, the employer has met its burden of demonstrating irreparable harm, since "a trade secret once lost is, of course, lost forever." FMC Corp. v. Taiwan Tainan Giant Industries Company, 730 F.2d 61, 63 (2d Cir. 1984). Washington has considered this issue in Solutec Corp. v. Agnew, 1997 Wn. App. LEXIS 2130 (enjoining ex-employees from making, marketing, selling carnauba or shellac based apple wax where it was "highly unlikely" that ex-employees, without college level degrees in chemistry or chemical engineering" could have developed the "high quality, competitive edible apple waxes" absent a former employer's trade secrets).

a. Inevitability, Not Possibility. The former employer need not demonstrate actual disclosure. The existence of a present and real danger of disclosure is sufficient. Merck & Company v. Lyon, 941 F. Supp.,1443, 1460 (M.D.N.C. 1996). The doctrine cannot have the effect of creating a de facto noncompetition restriction where none existed. Solutec Corp. v. Agnew, supra. Mere suspicion or apprehension of injury will not suffice. IBM v. Seagate Tech, Inc., 941 F. Supp. 98, 101 (D. Minn. 1992). The focus must be inevitability, not possibility of disclosure. Alice Chalmers Manufacturing Company, 255 F. Supp. at 654; FMC Corp. v. Cyprus Foote Mineral Company, 899 F. Supp. 1477, 1481 (W.D.N.C. 1995).

b. Persuasive Factors. Courts examining inevitability look to see whether evidence of bad faith demonstrates a willingness to misuse trade secrets. Defendant's attempts to mislead plaintiff about his new employment or that he has solicited some of plaintiff's suppliers strongly suggests to one court of a threat of harm. Cigma Chemical Company, 586 F. Supp. at 710. An employer may support its application for injunctive relief by demonstrating that the former employee already had revealed confidential information. Union Carbide Corp. v. UGI Corp., 731 F.2d 1186, 1191 (5th Cir. 1984). Courts appear more willing to grant injunctive relief based on the doctrine or inevitable disclosure if the former employee had entered into a noncompetition agreement. Continental Group, Inc. v. Kinsley, 422 F. Supp. at 845-46 (applying New York law). In the absence of bad faith or restrictive covenants, a court may impose a narrower restriction to protect specifically defined trade secrets. Merck & Company, 941 F. Supp. at 1462. The Courts generally struggle to differentiate between general knowledge acquired by an employee, particularly one who has worked in an industry for an extended period of time, and an employer's protectable trade secret information. See, e.g., Briskin v. All Season Services, Inc., 605 N.Y. Supp. 2d 166 (4th Dept. 1994) (refusing to enjoin a knowledgeable and experienced sales representative who did not know trade secrets).

7. OBSERVATIONS/GUIDELINES/CONSIDERATIONS ABOUT CONTRACTUAL PROVISIONS TO PROTECT INTELLECTUAL ASSETS.

Contractual provisions used frequently include: nondisclosure and non-use agreements; noncompetition agreements; non-solicitation (of customers or current employees) agreements. Some provisions that should be considered in these agreements include the following:

a. Home Court Choice of Law and Venue Advantage: Sample. "The terms of this agreement will be governed by the laws of Washington, and the parties agree that venue for any dispute will be the United States District Court for the Western District of Washington, at Seattle."

b. Assignability. Make sure the rights to any agreement may be assigned to successor companies or entities.

c. Disclosure Requirement. Requires that your former employee must disclose the agreement to subsequent employers.

d. Tattletale Provision. Requires the former employee to advise you when unauthorized disclosures have been made.

e. "When in Doubt" Provision. Requires the employee to ask you whether an item is indeed a trade secret when the former employee is unsure whether something is a company confidence or trade secret.

f. Meet and Review Requirements. Before termination, the employee must meet with management to discuss and debrief and explain obligations regarding secrecy.

g. Define trade secrets broadly.

h. Require return of all confidential materials.

i. Use liquidated damages provisions (but be aware it may affect ability to obtain injunctive relief).

j. Think twice about including an attorney fee provision.

k. Add confidentiality provisions to employee handbook.

8. AGREEMENTS, POLICIES/PROCEDURES TO CONSIDER.

a. Company Policy Statements Explaining the Importance of Proprietary Information.

b. Nondisclosure Agreements for Job, Vendor Applicant, or Purchase Orders.

c. Joint Venture Confidentiality Agreement.

d. Letter Agreements Regarding Exchange of Information and Right of First Negotiation.

e. Employee Confidentiality, Inventions, Noncompetition and Nonsolicitation, Antiraiding Agreements.

f. If breach, Sample Letter to Employee Regarding the Agreement.

g. Sample Letter to the Employee if there was no Agreement.

h. Legal Debriefing Form.

i. Interview Checklist Regarding Noncompetition/Nondisclosure Agreements.

- emphasize protection of former employer's trade secrets
- ask new employee about concerns of any secrets in possession
- confirm the documents/materials will be returned to the former employer
- confirm whether employee had exit interview with former employer
- provide HR with contract from past employer and present contract
- remind about precautions about talking to former employer

j Generic Checklist for Protecting Trade Secrets

1. Audit and Assess Company Trade Secrets
2. Physical Measures to Secure: doors, paper files, individuals responsible, trash disposal, e-mail, computer access
3. Employees:
    - company manual/policy regarding trade secrets

- have employees sign nondisclosure agreements; explain specifics
- certain employees may need to document R&D he/she involved in

4. Contractual Relationships: consultants safeguard your secrets

9. <u>HANDLING THE DEPARTING EMPLOYEE</u>.

Shortly before an employee leaves, the employer and the employee must communicate that their relationship is about to end.

a. <u>Resignations</u>. Resignations usually require little discussion as to terms. The employee will ordinarily be paid through the last day worked, plus accrued vacation, sometimes with and more usually without some portion of incentive compensation or bonus deemed to have been earned. Issues arise when employees leave to joint a competitor and/or is party to a confidentiality, proprietary, technology or other agreement that contains ongoing restrictions.

b. <u>Employer-Initiated Terminations</u>.

(1) Employees fired for cause are usually paid through the last day worked, plus accrued vacation, and escorted off the premises.

(2) Employees terminated other than for cause, including most performance terminations, not a good fit or attitude issues, are sometimes paid severance or offered severance or enhanced severance in exchange for release. In these situations, there is usually a written separation agreement which may have noncompete and confidentiality provisions. Typically, employees offered such agreements consult a lawyer, and the company's HR or legal staff are involved.

c. Competitive Advantage. If the employee's knowledge is competitively valuable, consider attempting to keep him or her off the street. This usually involves post-employment compensation.

d. Exit Interviews. The exit interview usually takes place between HR and the employee on the employee's last day. HR fills in a checklist to indicate that the topics have been covered and asks for the employee's signature to acknowledge that the procedure has been completed.

One recommended exit topic is usually a conversation about the employee's experience at the company. This is important feedback for the HR person and may identify potential claim situations.

The HR representative may ask where the employee's next job will be and what attracted the employee to take that job. The employee is not required to answer such questions, but it is helpful to ask them even or especially when competitive activity is suspected.

The exit interview is the right time to remind the employee of post-employment obligations.

e. Returning Company Documents and Property. The exit interview is a good time to arrange for the return of company property. Specific attention should be made to the risk of intellectual property—documents, diskettes, hard drives and other media.

f. Reminding the Former Employee of Continuing Duties to the Company. It is appropriate to remind the employee orally, if not also in writing, of the post-employment legal duty of confidentiality. This helps alert employees to the line between legal and illegal conduct. If the employee has signed a confidentiality agreement, review the agreement with the employee and make sure he or she leaves with a copy.

HANDLING THE CORPORATE RAIDING CASE

A. Insurance Coverage Considerations.

One of the first thing you should to do if you are sued by a business competitor is to have your comprehensive general liability insurance policy ("CGL") reviewed to determine if any of the claims alleged in the complaint are potentially covered by that policy. In a typical CGL, "Coverage B" includes coverage for "advertising injury." The advertising injury coverage in many policies is quite broad and may cover a number of business competitor suits. Depending upon the language of the policy involved, a CGL may cover suits alleging "unfair competition," misappropriation of style of doing business, and even "piracy." While each case must be examined individually to determine whether the allegations of a complaint give rise to coverage, there is no down side to determining coverage. If coverage exists, your insurer may have to pay for defense of the entire suit, possibly even non-covered claims. Given the costs associated with litigation this is a potential benefit you do not want to ignore. Moreover, given the liberal interpretation of advertising injury insurance policies by the courts, there may be a potential for coverage even where it does not first appear to exist. Accordingly, you should consult with coverage counsel at the outset of any suit to determine whether insurance coverage exists.

B. Enforcement of Noncompetition Agreements.

Whether to seek preliminary relief/TRO/permanent injunction. Seeking preliminary relief can have the advantage of early discovery and possible settlement. It may be especially important to protect the secret in a fast manner. Preliminary relief can provide this remedy. But seeking early relief requires posting bond, and, if you ultimately lose the trade secret battle, it

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may expose the company to larger exposure---damages to the opposing company for the imposition of the injunction.

1. TRO vs. Preliminary Injunction. TROs can be granted without notice if there is a clear showing of immediate and irreparable harm, and that the attorney certifies efforts to provide notice. Preliminary injunctions, however, require notice. TROs expire within 10 days, but there can be provisions for extensions. Preliminary injunctions, however, can last until the end of the case.

2. Procedure for Obtaining TROs or Preliminary Injunctions. First, notice is required for the issuance of a TRO unless exceptional circumstances are disclosed. FRCP 65(b); CR 65(b). The moving party has the burden of proving immediate and irreparable before the other side can be heard in opposition or that the moving party has attempted to give notice, but for stated reasons it has been unsuccessful. A preliminary injunction requires notice. FRCP 65(a)(1); CR 65(a)(1).

Second, the motion is accompanied by affidavits and declaration with admissible evidence stating the basis for relief. With preliminary injunctions, the Court often will have hearings, taking live testimony. Prior arrangements for bond should be made. During the TRO process, the Court should be given a proposed date for a preliminary injunction, hearing and briefing.

Third, because of the different preliminary injunction standards under federal law, the moving party is entitled to temporary and preliminary injunctive relief if it establishes "either (1) a likelihood of success on the merits and the possibility of irreparable injury, or (2) the existence of serious questions going to the merits and the balance of hardships tipping in its favor." Taylor v. Honig, 910 F.2d 627, 631 (9th Cir. 1990). The Court in Taylor described these formulations as a "sliding scale in which the required degree of irreparable harm increases as the probability of success decreases."

In Washington, the moving party must show: (1) A clear legal or equitable right, a well grounded fear of immediate invasion of that right, and that the acts complained of are or will result in actual and substantial injury to the moving party. Tyler Pipe Industries vs. Department of Revenue, 96 Wn.2d 785, 638 P.2d 1213 (1982).

3. Copyright/Patent Infringement/Trademark/Trade Secret Specifics. Depending on the specific case, the Court will apply different standards. See., e.g. Triad Systems Corp. v. Southeastern Express Company, 64 F.3d 1330, 1335 (9th Cir. 1995) (Copyright Infringement: Irreparable injury is sometimes presumed where the likelihood of success is proven); Reebok International Ltd. v. J. Baker, Inc., 32 F.3d 1552 (Fed. Cir. 1994) (Patent Infringement: A presumption of irreparable harm to the patentee may be established through a strong showing of a likelihood of success on the merits plus continuing infringement); Vision Sports, Inc. v. Melville Corp., 888 F.2d 609 (9th Cir. 1989) (Trademark Infringement or Unfair Competition: Irreparable harm presumed where there is evidence of a likelihood of confusion with trade dress); Campbell Soup Company v. Conagra, Inc., 977 F.2d 86 (3d 1992) (Trade Secret Cases: Irreparable harm will be established if there is evidence of an intent to make imminent or continued use of a trade secret or to disclose the secret to a competitor).

C. Voir Dire/Jury Selection Considerations.

We recently defended a large trade secret case in which Company A employed Company B's former employee. Company B alleged that A had hired the employee to learn its secrets and its processes. The matter was tried to a mock jury. While each case must be assessed individually, the following general guidelines should help in considering potential juror profiles.

Changing jobs is a relatively recent development, especially for professionals. Less than a generation ago, most persons worked for the same employer for their entire work career. Older jurors who had that experience are naturally disenchanted with employees who change jobs, particularly those who go to work for competitors. Regardless of the law, such jurors may see an employee who leaves one company for another as disloyal. Their natural inclinations may line up with those of the plaintiff in such cases.

Conversely, younger workers expect to change jobs at least once during their work life, if not more often. These jurors naturally expect employees who do change jobs to take their experience and knowledge with them. These jurors naturally expect employees who do change jobs to take their experience and knowledge with them. Such jurors, as a group, are more likely to favor the departing employee and his new employer.

Potential jurors who work in hi-tech areas are who work in other creative fields may also be good candidates for defense jurors. These persons have an investment in the creative process. While the work done may have been created for and now owned the former employer, such jurors naturally feel they have some ownership or ongoing right to work product they helped developed. Their natural tendency will be to favor a plaintiff who is accused of taking a "trade secret" he helped to develop.