

Restrictive Covenants and Trade Secrets



Speakers

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Meet Jim Gale...

- Rated AV Preeminent by Martindale Hubbell
- Board Certified as a Specialist in Intellectual Property by the Florida Bar
- Ranked *Patent Lawyer of the Year* by *Best Lawyers in America*®, 2015, 2016, 2017, 2018
- Listed in *Best Lawyers in America*®, Intellectual Property Litigation and Patent Law 2006-Present
- Ranked *Top Ten Lawyers in United States* by US Lawyer Rankings 2006-Present
- Selected as *SuperLawyer* in Intellectual Property 2006-Present
- Top Attorneys in Florida for Intellectual Property, *Florida Trend Magazine's Legal Elite* 2003-Present
- Top Lawyers and Law Firms in South Florida, *South Florida Legal Guide*
- Recognized by The International Who's Who of Patent Lawyers

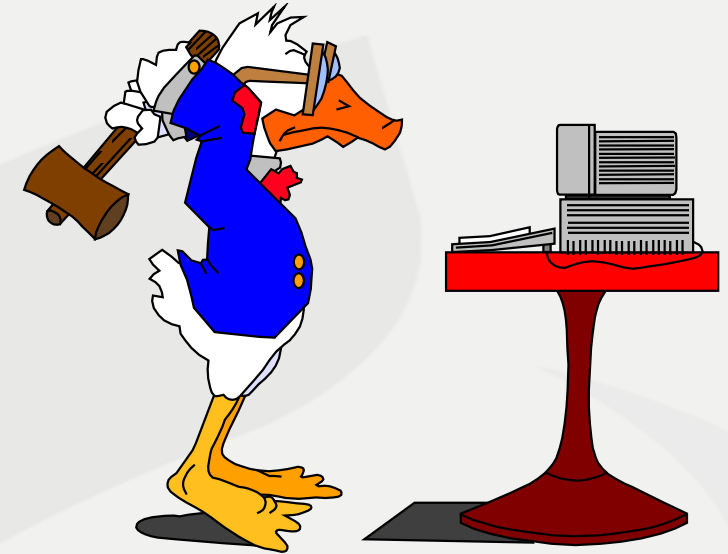


COMMON IP PROTECTED

- **Patents-:** Protect “Inventions”
- **Trademarks-:** Protect “Symbols or Slogans”
Representing Goodwill
- **Copyrights-:** Protect Expression of Ideas and
Original Works of Authorship
- **Trade Secrets-:** Protect Confidential Business or
Technical Information
- **Restrictive
Covenants-** Mechanism to protect Goodwill, Trade
Secrets, and Employer’s other
legitimate protectable interests”

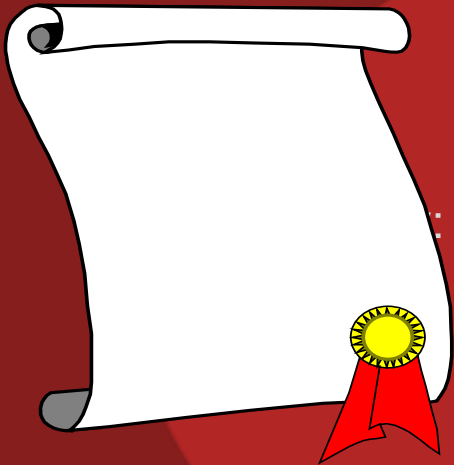
IP LEGAL RIGHTS

- Patents: The Right to **Exclude** Use by Others
- Trademarks: The Right to **Exclude** Use by Others
- Copyrights: The Right to **Exclusively** Copy, Distribute, Display, Perform and Make Derivative Works
- Trade Secrets: The Right to **Exclusively USE (??)**
- Covenants: The right to **EXCLUDE** others from working



Employment Agreements

--The *“Do’s and Don’ts”*



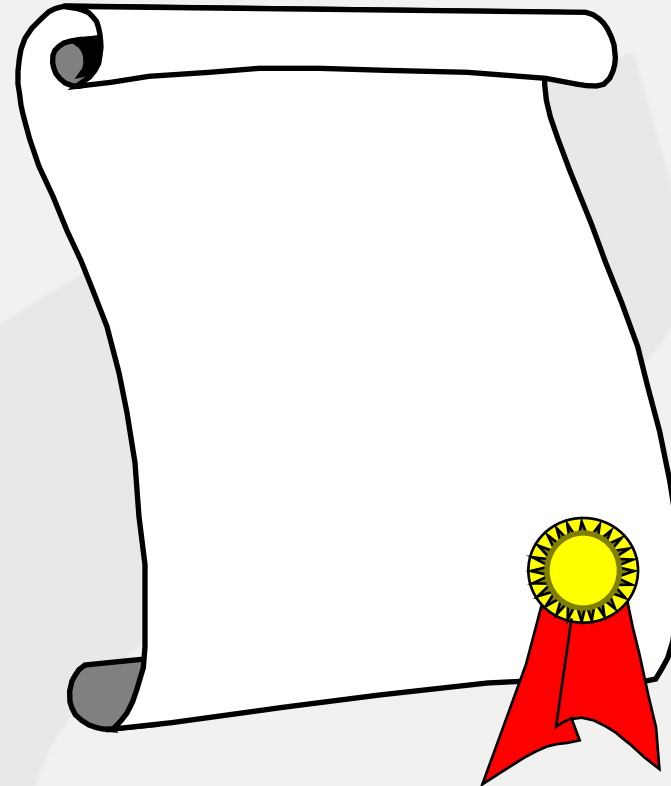
Employment Agreements

Necessary Clauses:

- ***Invention Assignment Clause***—
 - Assigns all IP rights to Company
- ***NDA-Non-Disclosure Agreement***
- ***Covenant Not to Compete?***
- ***Choice of Law/Venue***
- ***Assignment of E'ee Agreement to Successor Company or Business***
- ***Injunctive Relief***
- ***Arbitration?***

Covenants

- ***Post Termination*** Restrictions
 - Contrast *Term of Years Agreements*
 - Contrast *Conflict of Interest Agreements*
 - Contrast *No Switching Agreements*
 - Contrast *Exclusive Distributor Agreements*



Purpose for Covenant

- *“Despite enormous and accelerating technological change, one thing remains constant: the value of experienced **people** in developing, selling and servicing your products. After all, it takes **people** to develop customers. And yes, it takes **people** to sell to customers.*



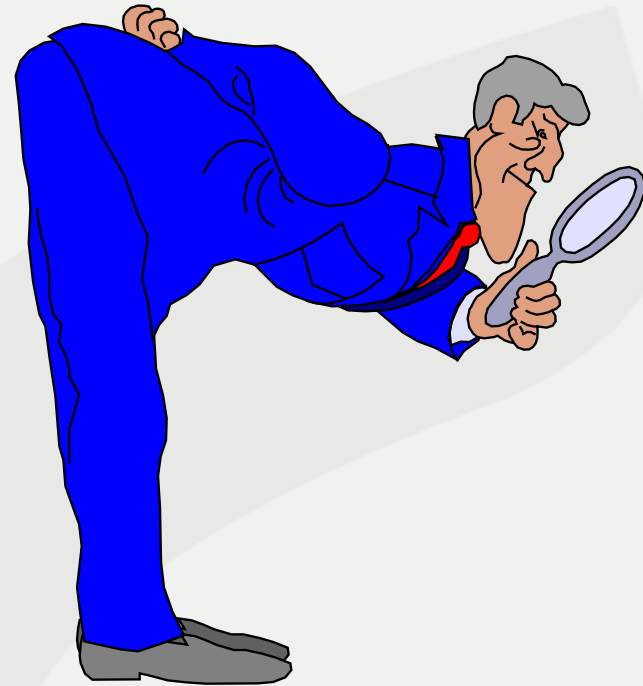
Enforceability of Covenant

- Restrictive Covenants usually governed by state law
- Matter of “public policy”
 - California – Difficult to enforce
 - Georgia--Prior to May 11, 2011-
 - Difficult to enforce
 - After May 11, 2011
 - Easier to enforce, although some restrictions on “accepting business”
 - Florida – Strongly Favors enforcement
 - Minnesota – Strongly Favors enforcement
 - Texas – Schizophrenic (although becoming more mainstream)



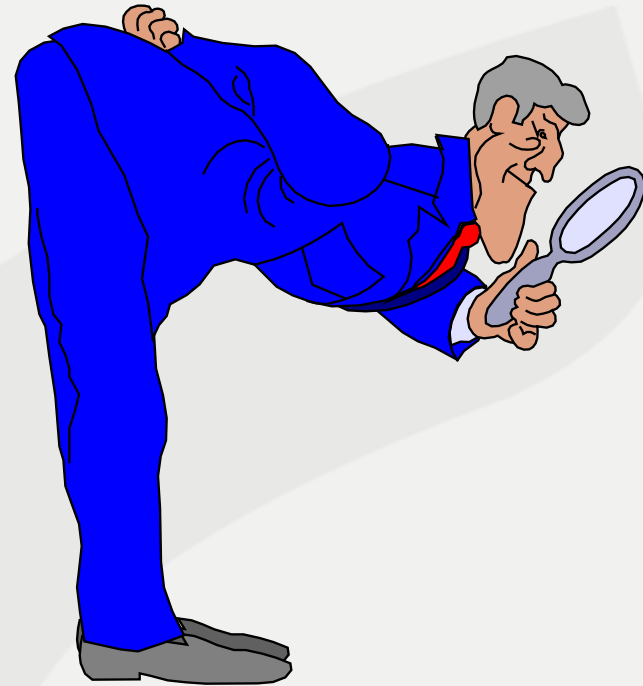
Purpose for Covenant

- Most States Require some type of ***“Legitimate Protectable Interest”*** ***to uphold covenant***
- Protecting Trade Secrets/Confidential Information?
 - Customer Knowledge
 - Vendors/Suppliers
 - Financial and Cost Info
 - Product Knowledge?
 - Research and Development?
 - Market Knowledge?
 - Future Corporate Plans
 - Other business info



Purpose for Covenant

- Most States Require some type of “***Legitimate Protectable Interest***” ***to uphold covenant***
- Protecting Customer Goodwill
 - Customer Goodwill belongs to former Employer
 - Former Employer paid Employee to foster good relations with customers
 - Former Employer owns beneficial relationships with customers.
 - Former Employer owns Goodwill with Prospective customers.



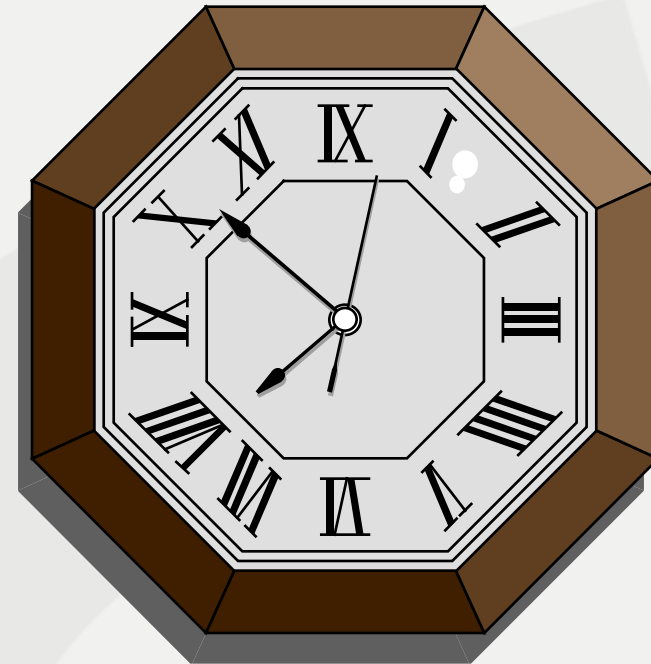
General Aspects of Covenants

- Courts Generally Look at:
 - Time of Restriction
 - Area/Geography
 - Scope (“line of business”)
 - Impact on Public and Public Policies
 - Equities
 - Consideration (payment)



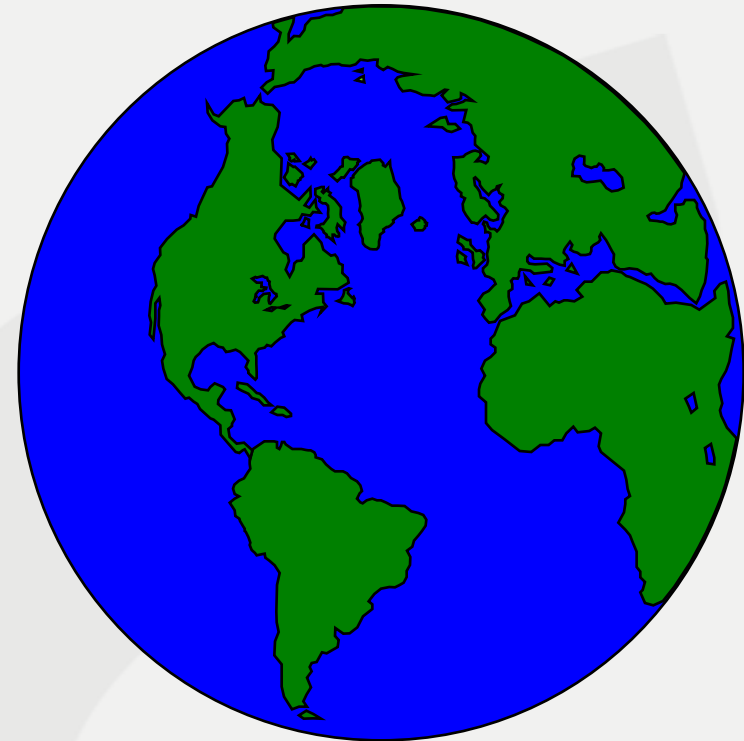
Time/Duration of Restriction (Gen'l)

- May Depend on Presence of Trade Secrets
 - What is duration of secret?
- May depend on Time with Former Employer
 - What is “Reasonable Under the Circumstances?”
- Time to form Relationships
- Time to integrate new employee into territory



Geography

- What was area to which Employee was assigned?
- Where does Former Employer have operations?
- Where will it have operations?
- World-wide Covenants?
- What is effect of Trade Secret Knowledge?
- What if no area specified?
 - Customer specific vs. “anywhere”



Impact on Public/ Public Policies

- Enforcement Cannot be:
 - “Contrary to Public Policy” of State considering covenant
 - e.g.. **California Court** will not enforce Covenant against Employee (regardless of choice of law provision)
 - Ca. has a strong public policy against covenants (Ca. Bus & Prof Code 16600)
 - But, a *Minnesota* Court considering a covenant involving a California employee, will most likely enforce it.



Equities *MAY* affect Enforcement

- What is *Fair* and *Equitable* under the Circumstances?
- Hardship on Employee?
 - Not a defense in most states.
- Is the party seeking relief a *Good Doobie*?
- He who seeks equity must do equity
 - Improper Acts by Employer?
Employee?
 - Fraud, Illegal Acts, Breach of Fiduciary Duties
 - E.g. Breach of Contract by Employer? (e.g.. Cordis Corp. v. Prooslin)



Equities *MAY* affect Enforcement

- Has Former Employee/New Employer acted Properly?
 - Never do *Indirectly*, that which cannot be done *Directly*.
 - Don't try to circumvent terms of restrictions
 - Courts dislike “game playing”
 - No “hand-offs”
 - “I can't see you, but this new other sales rep can.”
 - No “swapping” of territories



Court Enforcement Procedures

- Court May:
 - Enter **Ex Parte** Injunction Shuts Down Former Employee w/o notice
 - May Force New Employer to discontinue employment of Employee
 - Give Notice of Hearing/ Order to Show Cause to Employee/ New Employer
- If Court Enters Injunction
 - Employee bound by Order
 - New Employer can be bound even if not a party
 - Employee can seek to :
 - Move to Dissolve
 - Appeal
- If No Injunction-damages? problems?

Court Enforcement Procedures

- Injunction Lasts for Duration of Case or Term of Restriction
- Bond
- Tolling-
 - Injunction may, in some states, Run from time of Order, not time of departure
 - Minority View
- Judge has discretion
- Case usually settles
- If case doesn't settle, usually becomes a
 - case for damages, or
 - claim against the Bond

Damages

- Whether Injunction issues or not:
 - Damages still possible against former Employee by Former Employer
 - “Breach of Contract” claims still viable
 - Breach of Covenant
 - Breach of NDA
 - Theft of Trade Secret Claims still possible
- Former Employer Can Sue New Employer
 - Tortious Interference
 - Assuming New E’or knows (or should have known) of existence of contract.
 - Theft of Trade Secrets/Conf Info
 - “using” information supplied by new employee

Do's and Don'ts of Hiring

Presented By:

Hiring Procedures



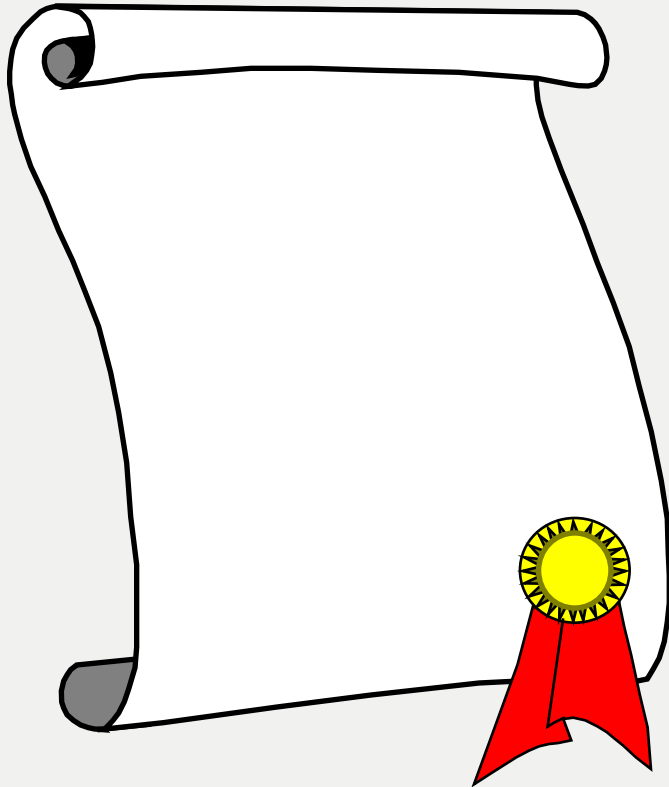
- *DO* — (prior to hire and while negotiating)
 - Instruct candidate not to interrupt his or her existing business routine and responsibilities in connection with his or her prospective new job with us.
 - Candidate has an *obligation of loyalty* to his present employer right up until his resignation.

Hiring Procedures



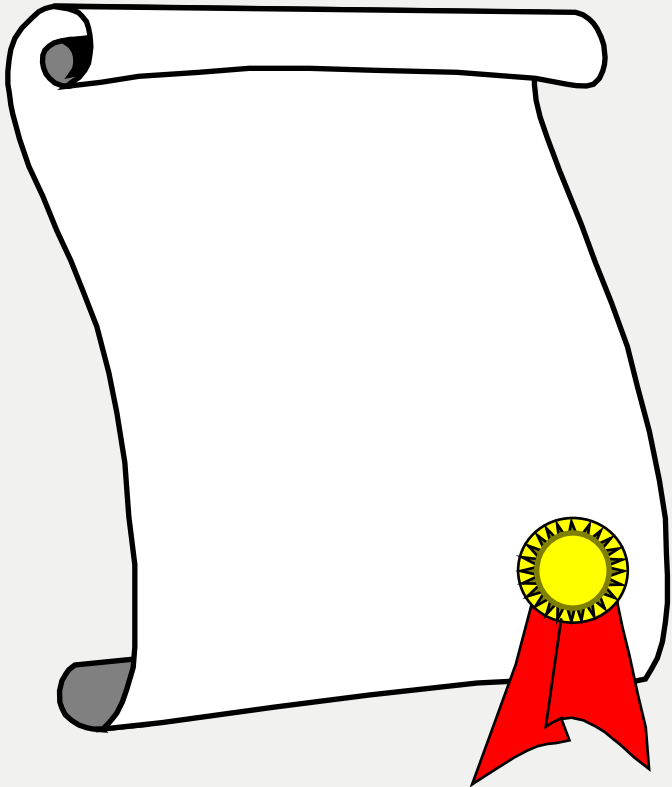
- *DO* — (prior to hire, after hire and while negotiating)
 - Remember that ***Anything*** you say to a candidate **CAN AND WILL BE USED AGAINST YOU IN A COURT OF LAW.**
 - So be careful what you say to candidate

Hiring Procedures



- *DO*—
- Obtain candidate's *Employment Agreement* with his or her present employer
- Obtain *Resume/CV* of Candidate
- Inform candidate of company's view of legal restrictions that must be honored after resignation.
 - Put Restrictions in ***Offer Letter*** (*Generally* e.g. “you must abide by any valid/legally binding restrictions by which you are bound ...”)
- Provide copies of contract, resume and offer letter to counsel for review

Hiring Procedures



- DO –
- Instruct a candidate NOT TO sign any new papers or agreements with the present employer upon resignation,
 - including contracts, severance agreements, exit forms, exit interview summaries, termination forms, etc.
- Send any proposed papers to counsel for review and approval.

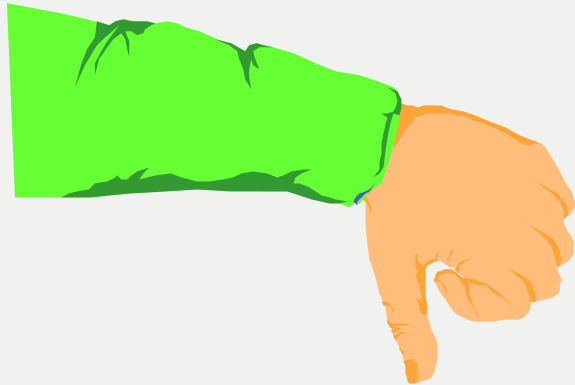
Hiring Procedures



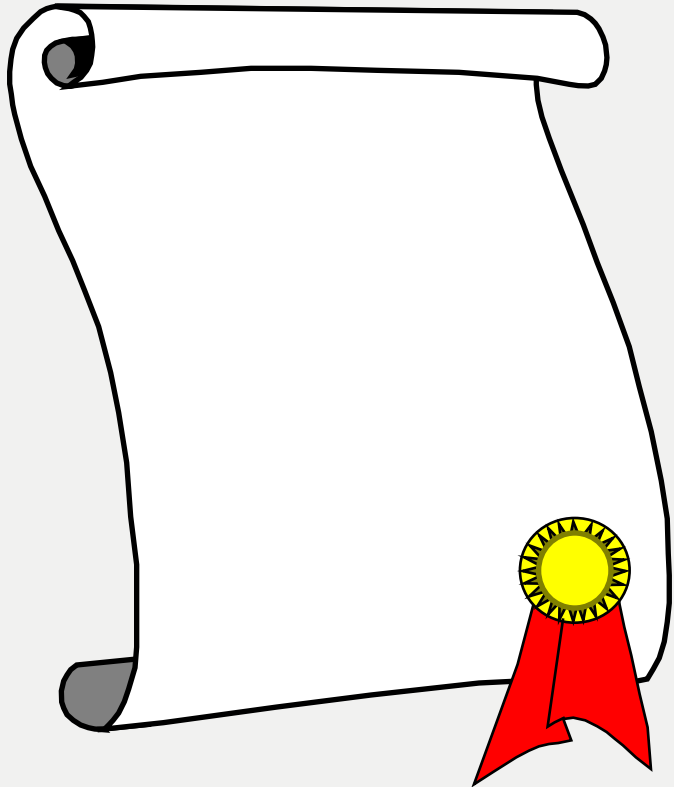
- *DON'T* –
 - meet or call candidate on present employer's time,
 - call Employee on present employer's cell phones
 - Get a "burner" phone
 - Email Employee at present employer's email address.

Hiring Procedures

- *DO* - Instruct a candidate *NOT TO Solicit* their customer's (or prospective customer's) business before leaving
 - (An Employee owes a duty of obligation to Employer right up until his or her departure from the company)

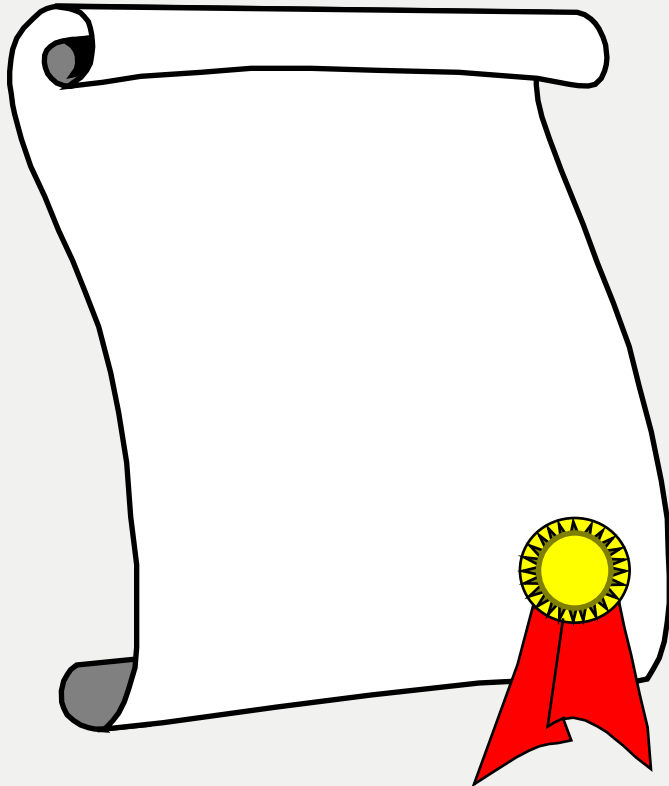


Hiring Procedures



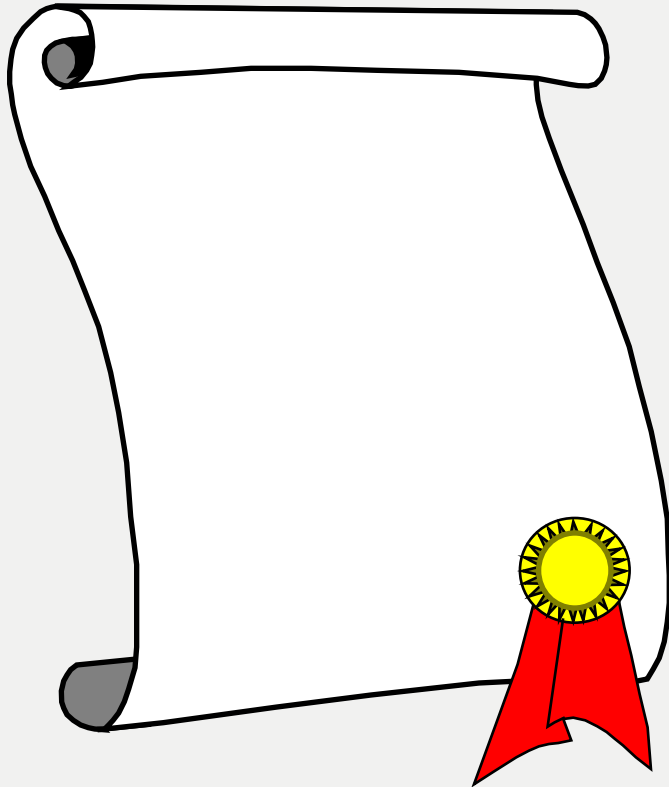
- *DON'T* -
- Sign any new employment agreement with a candidate until after he or she has actually formally resigned.
- If E'ee refuses to resign without a signed contract from us, post-date our Contract and/or make it contingent on him resigning.

Hiring Procedures



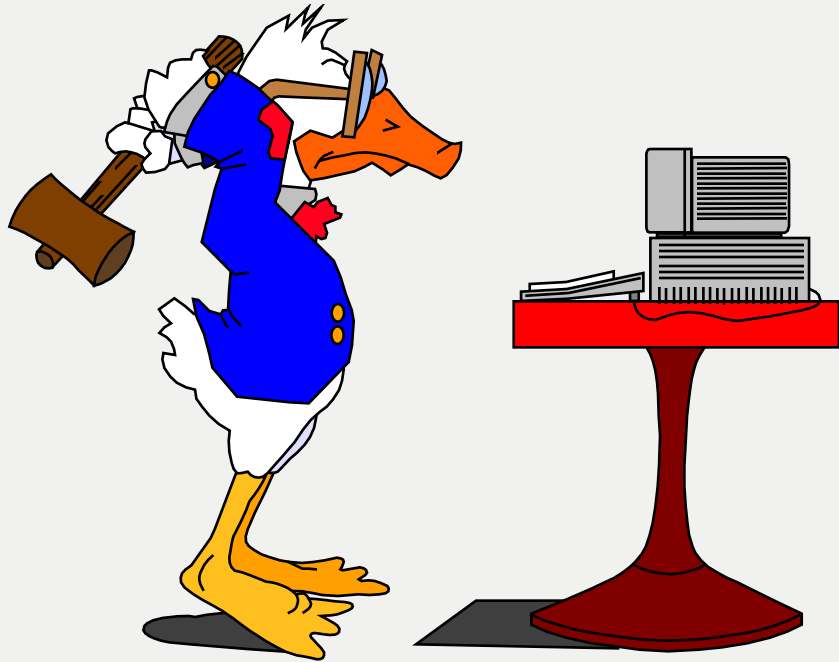
- *DON'T* -
- Set out a list of New Employee's accounts if those accounts are going to conflict with Non-compete
 - List is discoverable in Litigation
 - Except if sent to counsel only
- Have E'ee provide new company with a list of "restricted accounts"
 - This may be deemed to be the communication of "trade secrets" or Confid. Information.

Hiring Procedures



- DON'T -
- Do indirectly, that which Covenant does not directly permit
 - No “hand-offs”
 - No “I can’t do it, but John Doe of my new Employer can”
 - No accepting calls from former Customers or Potential Customers and forwarding to another Employee or Supervisor for handling
 - Employee may be being “set up”

Hiring Procedures



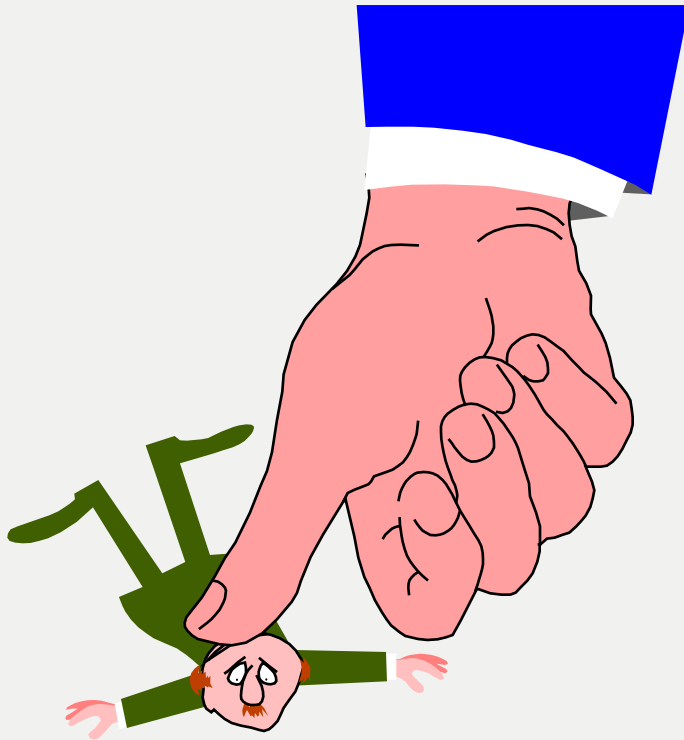
- *Don't*
 - Allow new Employee to break covenant without specific approval from counsel.
 - Allow employee to use Pricing Info from Prior Employer
 - Use pre-existing pricing lists from new company

Hiring Procedures



- **Do—**
 - Ensure that all information and documents in Employee's possession from Former Employer are provided to outside counsel prior to Employee starting with new Employer
 - (You do not want other side claiming that Employee stole or used info at new Employer)

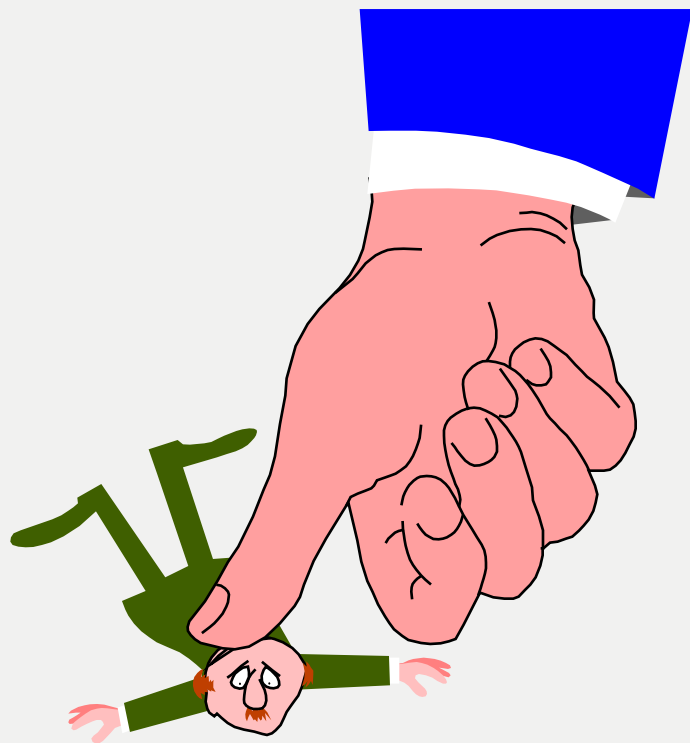
Hiring Policies



- **DO—**
 - Keep very tight control and rein over your new employee
 - What makes them a good Sales Person is what makes them a dangerous hire!
 - If Employee’s Customers and Former Customers are either “common” to your company, or known in the industry/territory, Visit Employee’s former accounts and develop relationships with them
 - Let them know that rep cannot sell your company’s goods, services or products to them during covenant period

Hiring Policies

- *DO*—
 - Let Employee's former accounts know that rep can sell non-FCC products to them during covenant period (depending on covenant)

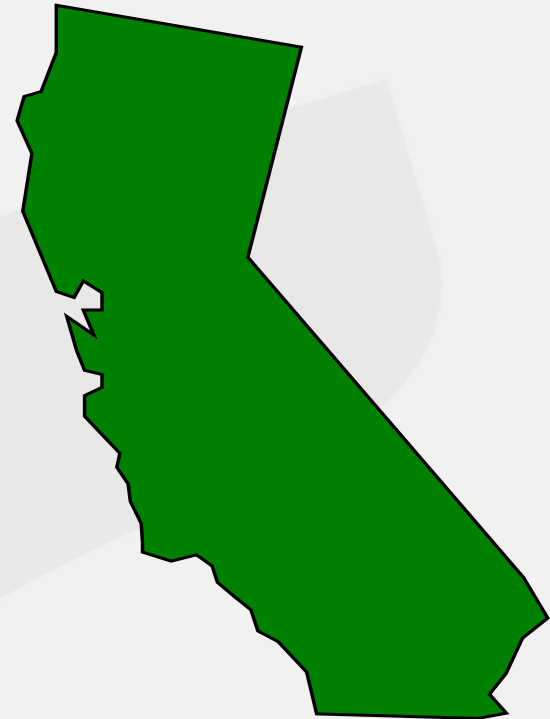


Recent State Statutory Changes



California

- Labor Code Law 925
 - All Forum Selection/Choice of Law provisions specifying a law other than CA are void ab initio, UNLESS,
 - E'ee is represented by counsel and provision specifying foreign law is part of negotiated agreement
 - Not Retroactive
 - Applies to all contracts entered into, modified or renewed or amended after Jan 1, 2017.



Indiana

- Ind. Code §25-22.5-5.5
 - After 7/1/20--Physician Non-Competes must contain specific provisions regarding:
 - Communications with patients;
 - Access to Patient Info
 - “Buy-Out” obligation



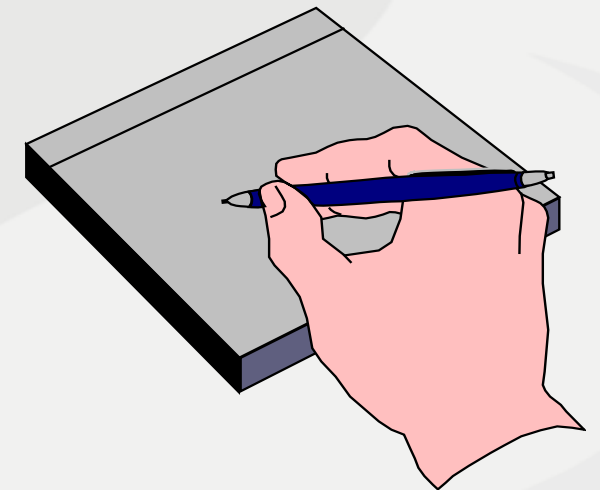
Louisiana RS 23:921

- §921. ***Restraint of business prohibited; restraint on forum prohibited;*** competing business; contracts against engaging in; provisions for
- A.(1) Every contract or agreement, or provision thereof, by which anyone is restrained from exercising a lawful profession, trade, or business of any kind, except as provided in this Section, shall be null and void. ...
- (2) The provisions of every employment contract or agreement, or provisions thereof, by which any foreign or domestic employer or any other person or entity ***includes a choice of forum clause or choice of law clause in an employee's contract of employment ...or attempts to enforce either a choice of forum clause or choice of law clause in any civil or administrative action involving an employee, shall be null and void*** except ...



Maine LD 733

- Effective 9/18/19
- Non-Competes banned for low wage E'ee's ($\leq 400\%$ of Fed Poverty Line) (\$49,960)
- Legit Business interest required for E'ee's earning $\geq 400\%$ of Fed Poverty Line (\$49,960)
 - Trade secrets
 - Goodwill
 - Confid Info
- 3 Days Notice Mandated prior to signing



Maryland

- Effective 10/1/2019
- Non-competes VOID for those earning less than \$15/hour or \$31,200 annually.
- Applies during Employment as well
 - i.e. can work for a competitor during employment
- Applies to Agreements entered into outside of MD.



Massachusetts NCA

- Effective Oct. 1, 2018
- Signed by both parties (E'ee Handbooks?)
- Provide Covenant to E'ee 10 days prior to offer
- Not applicable to:
 - Non-Exempt E'ee's
 - Student interns
 - Short-term student employee's
 - E'ee's terminated w/o cause;
 - E'ee's 18yo or younger
 - New consideration needed
 - Continued Employment not sufficient consideration



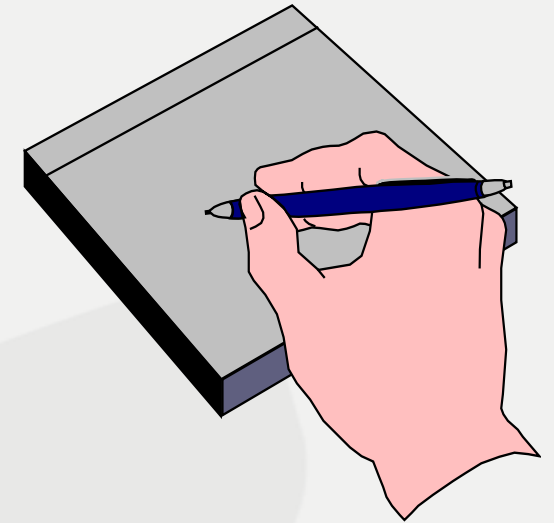
New Hampshire

- Effective Sept. 8 2019
- Non-competes VOID for E'ee's making $\leq 200\%$ of the Fed Min. Wage
- Not applicable to Physicians.



Oregon

- **Effective 1/1/20--** Employers to provide signed copy of the agreement within 30 days following the employee's last date of employment. Otherwise, non-compete agreement cannot be enforced.
- **Written Notice** of any non-compete requirements in writing no later than two weeks before the first day of an employee's employment.
- **Exempt Employees Only--**annual earnings must exceed the median income for a family of four as specified by the U.S. Census Bureau.



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Rhode Island

- Effective 1/15/2020
- RETROACTIVE
- Not applicable to:
 - Non-Exempt E'ee's
 - Student interns
 - Short-term student employee's
 - E'ee's terminated w/o cause;
 - E'ee's 18yo or younger
 - Employees whose BASE is not more than 2.5x Federal Poverty Level (currently \$31,225)



Virginia

- Non-competes Not enforceable Against:
 - “Low Wage” Employees Exempt from Non-Competes
 - $\leq \$52,000/\text{yr.}$?// $\$62,500/\text{yr.}$?
 - Ind. K’or’s \leq Va. Avg. Hrly wage
 - $\$20.30/\text{hr}$
 - Students, trainee’s, etc.
 - New law not applicable to Salespeople?
- Effective 7/1/2020



Washington

- RCW 49.62, effective 1/1/2020—**RETROACTIVE!**
- Noncompete void and unenforceable if annual earnings from the employer are
 - \leq \$100,000 for an employee,
 - or \leq \$250,000 for an independent contractor. (adjusted annually for inflation.)
- E'er--must disclose the terms in writing before offer of employment
- For Agreements entered into after employment begins, E'er must provide independent consideration.

Washington

- A noncompete \geq 18 months is presumed to be unreasonable and unenforceable, (unless E'er can prove by clear and convincing evidence that \uparrow duration is necessary to protect business or goodwill.)
- Forum Selection Clause against WA-based employee is void and unenforceable.
- Provisions that deprive the employee of protections of law are similarly void and unenforceable.

Washington

- If an employee is laid-off, noncompete is void unless “garden leave” is offered
 - E’er must pay base salary, minus new earnings
- E’er cannot prevent “moonlighting” or competitive activity *during course of employment* if worker making $\leq 2x$ Min. Wage



Utah

- Effective 5/10/2016 and 5/14/2019
- One year Max Restriction for all Covenants entered into on or after 5/10/16.
- Broadcasters may be Exempt
- Continued Employment is sufficient Consideration



Choice of Forum Provisions

- Prohibited in:

- California
- Louisiana
- Massachusetts
- North Carolina
- Washington



- Residents in these states can challenge the Forum selection provision in their Non-Competes.

Proposed Federal Legislation



WorkForce Mobility Act of 2020

- HR 5710/ S.B. 2614
- Prohibits employers from entering into, enforcing, or threatening to enforce non-compete agreements with employees, subject to exceptions.
- Employers must post notice in the workplace of this prohibition.
- Permits certain non-compete re: sale of a business or dissolution of a business/partnership.
- Violations subject to enforcement by the FTC.
- The Dept. of Labor may investigate violations and bring claims to prohibit enforcement of non-compete agreements and seek civil penalties.



Freedom to Compete Act-2019-20

- SB 124
- Amends Fair Labor Standards Act of 1938
- Prohibits an employer from enforcing, or threatening to enforce, any non-compete agreement in employment contracts with certain entry level, lower wage workers.
- A non-compete agreement entered into before the enactment of this bill shall be void and have no effect.



Trade Secret Basics

Presented By:

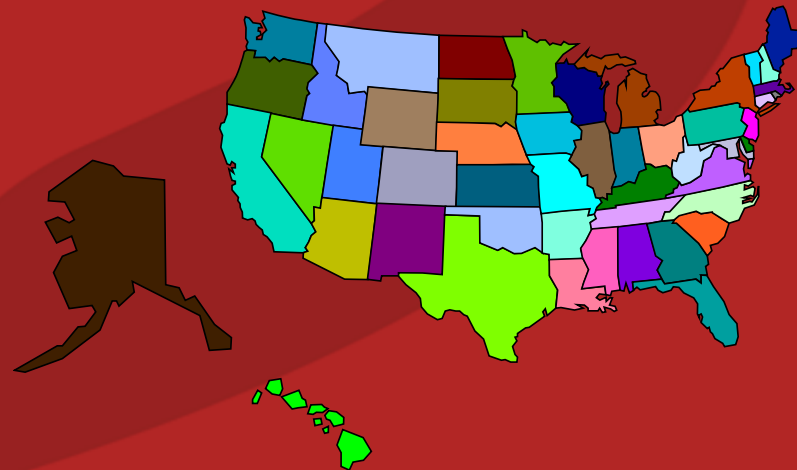
TRADE SECRETS

- Confidential Information that is not generally known
 - Must have value
 - Information may provide competitive advantage
 - Efforts must be taken to keep information secret
 - Agreements that restrict use of information
 - Physical and electronic security
 - Examples include customer information, marketing plans, *inventions*, pricing information, product designs, *source code*

TRADE SECRETS

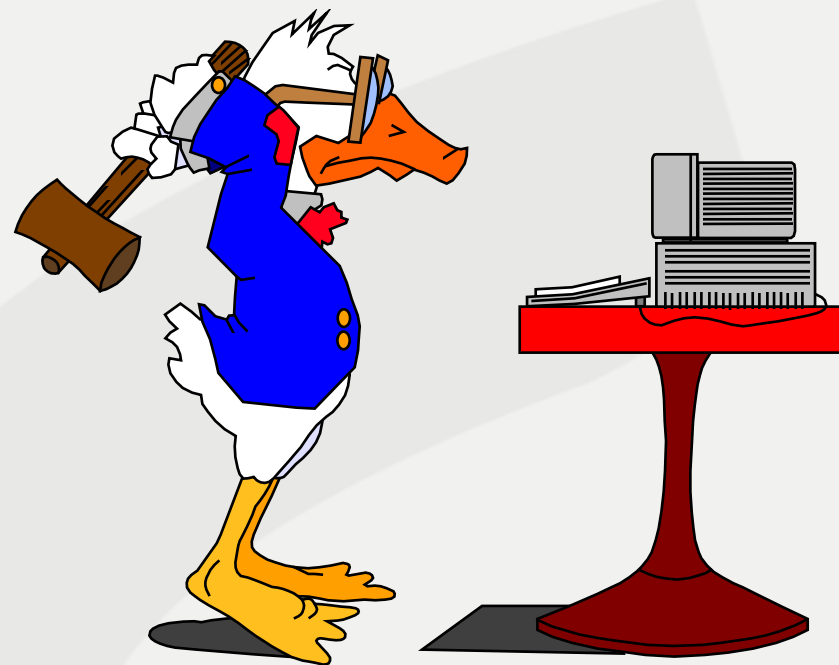
- What do you get?
 - Indefinite protection if kept secret, but trade secrets may be developed independently
 - ***Right to sue*** for misappropriation of trade secrets, breach of confidence, breach of contract, or unfair competition
- Protection of Trade Secrets:
 - By Contract
 - By Operation of Law
 - Statutory or Common Law

Federal Defend Trade Secrets Act (DTSA)



What is the DTSA? (skip)

- Provides new seizure remedy
- Adopts new **safe harbor** and links notice of the safe harbor to enhanced damages and collection of fees (**18 U.S.C. § 1833**)
- Provides extensive protections for wrongful or bad faith assertion of a claim, which can be proven by circumstantial evidence



DTSA – Definition of “Trade Secret” (skip)

- all forms and types of financial, business, scientific, technical, economic, or engineering information
- including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes
- whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing
- if (A) **the owner** thereof has taken reasonable measures to keep such information secret; and
- (B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information

DTSA – Definition of Misappropriation (skip)

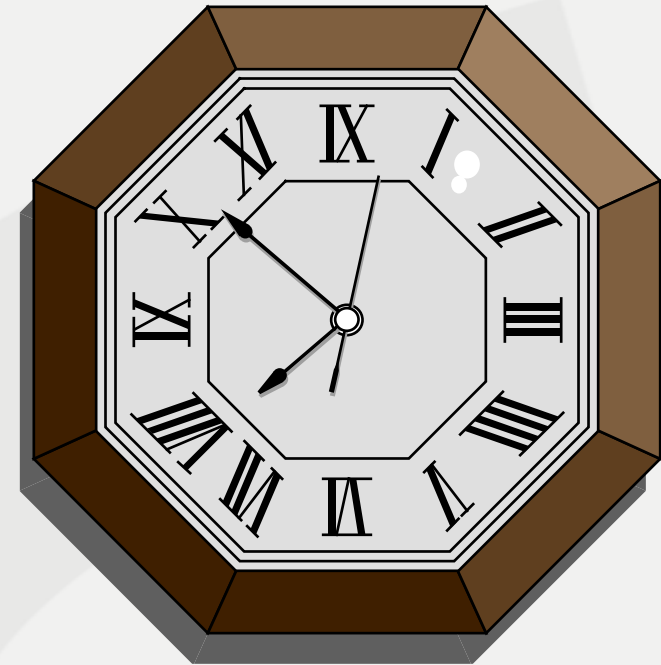
- **Acquisition** of a trade secret *of another* by a person who knows or has reason to know that the trade secret was acquired by improper means; or
- **Disclosure or use** of a trade secret *of another* without express or implied consent by a person who—
 - used improper means to acquire knowledge of the trade secret;
 - **at the time** of **disclosure** or **use**, knew or had reason to know that the knowledge of the trade secret was—
 - derived from or through a person who had used improper means to acquire the trade secret;
 - acquired under circumstances giving rise to a duty to maintain the secrecy of the trade secret or limit the use of the trade secret; or
 - derived from or through a person who owed a duty to the person seeking relief to maintain the secrecy of the trade secret or limit the use of the trade secret; or
 - before a material change of the position of the person, knew or had reason to know that—
 - the trade secret was a trade secret; and
 - knowledge of the trade secret had been acquired by accident or mistake

STATUTE OF LIMITATIONS (RETROACTIVITY)

Statute of Limitations (Retroactivity)

- 18 USC § 1836 (d):

A civil action under subsection (b) may not be commenced later than 3 years after the date on which the [misappropriation](#) with respect to which the action would relate is discovered or by the exercise of reasonable diligence should have been discovered. ***For purposes of this subsection, a continuing [misappropriation](#) constitutes a single claim of [misappropriation](#).***



CASES Dealing with “*Retroactivity*”:

Statute of Limitations:

- *Adams Arms, LLC v Unified Weapon Systems, Inc.*, 2016 WL 5391394 (MD Fla. 9/27/16)

Continued **use** or **disclosure** of trade secret after May 11, 2016 still actionable, even though misappropriation occurred prior to May 11, 2016.

- “As [Plaintiff] points out, while Subsection 1836(d) states that a continuing misappropriation constitutes a single claim, it does so only “for purposes of this subsection.” That subsection addresses only when a claim accrues for statute of limitations purposes, and it does not purport to address the issue in this case: whether an owner may recover under DTSA when the misappropriation occurs both before and after the effective date, assuming the entire misappropriation is within the 3-year limitations period.”
- Notes to DTSA:
 - [Pub. L. 114–153](#), § 2(e), May 11, 2016, [130 Stat. 381](#), provided that:

“The amendments made by this section [amending this section and sections 1836 and 1839 of this title] shall apply with respect to **any** misappropriation of a trade secret (as defined in section 1839 of title 18, United States Code, as amended by this section) for which **any act occurs on or after the date of the enactment of this Act** [May 11, 2016].”
 - “[...]his language suggests that when an “act” occurs after the effective date, a *partial recovery* is available on a misappropriation claim. Supporting this interpretation, the Court notes that Congress **omitted** from DTSA the following language from Section 11 of the **UTSA**: “With respect to a continuing misappropriation that began prior to the effective date, the [Act] also does not apply to the continuing misappropriation that occurs after the effective date.”

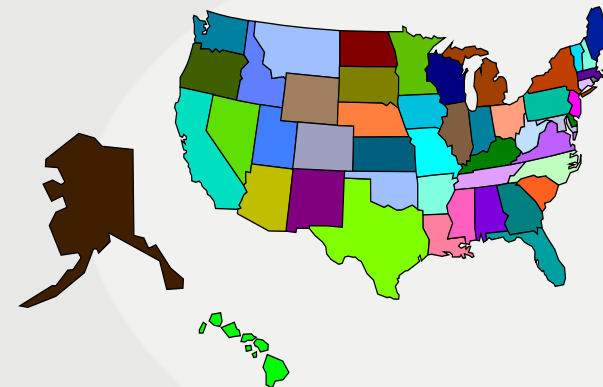
Statute of Limitations (Retroactivity)

Compare **MO. UTSA**:

- BP Chemicals Ltd. v. Jiangsu Sopo Corp., 429 F. Supp. 2d 1179, 1190 (E.D. Mo. 2006) (rejecting continuing violation theory because "[t]he [Missouri **UTSA**] specifically states that if a misappropriation began before the effective date, the Act cannot apply to continuing misappropriation that occurs after that date"),

With, **CA UTSA**

- Cal. Civ. Code § 3426.10 (specifying that, if a continuing misappropriation commenced prior to effective date, the act applies to the part of the misappropriation occurring after the effective date).



**EMPLOYER SAFE HARBOR/
EMPLOYEE IMMUNITY??
18 USC § 1833**

DTSA – Safe Harbor (18 U.S.C. § 1833)

- The DTSA includes a **safe harbor and immunity** for whistleblower employees
- Provides for **immunity** [for the employee] from any criminal or civil liability under any federal or state trade-secret law for disclosure of a trade secret that is:
 - made in confidence to an attorney or federal, state, or local governmental official “**solely** for the purpose of reporting or investigating a suspected violation of law,”
 - or in a filing in a lawsuit made under seal



DTSA – Safe Harbor For Whistle Blowers??

(18 U.S.C. § 1833 (b))

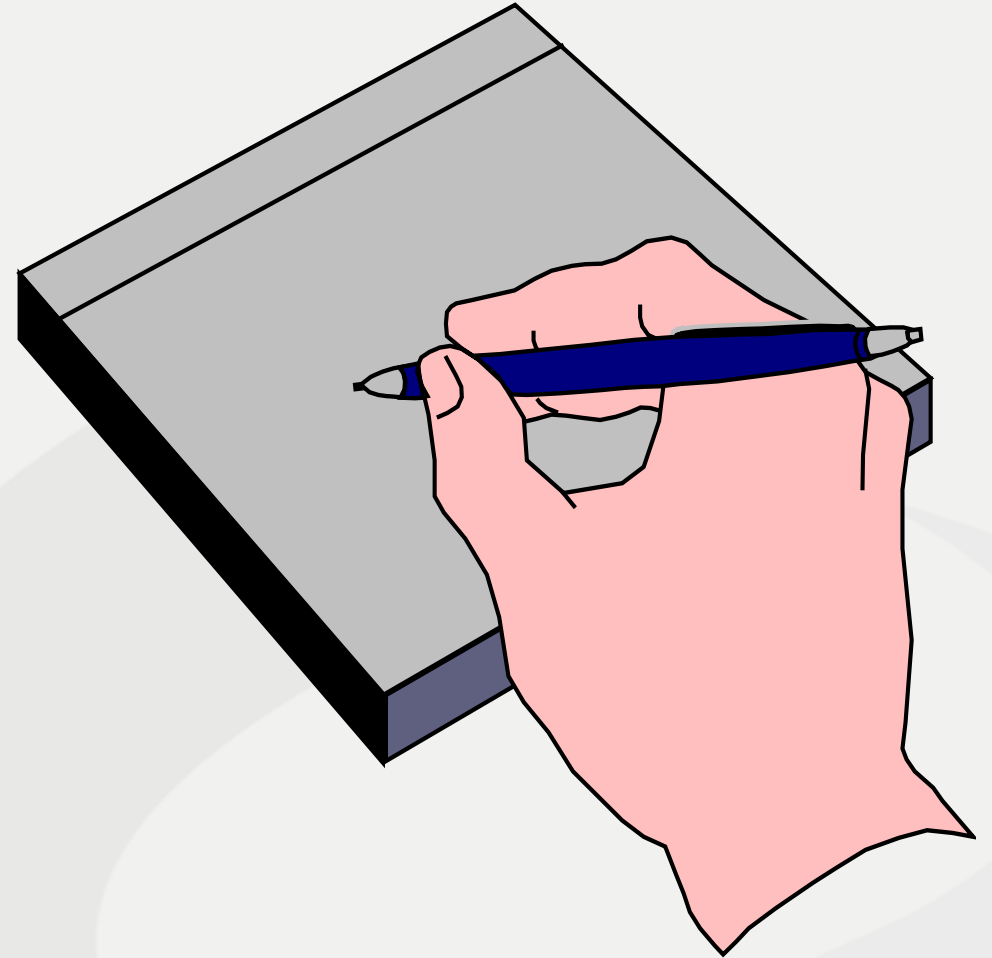
Under the Defend Trade Secrets Act of 2016, 18 U.S.C. sections 1831-39:

- An individual shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that:
 - (A) is made
 - (i) in confidence to a Federal, State, or local government official, either directly or indirectly, **or to an attorney**; and
 - (ii) **solely for the purpose of reporting or investigating a suspected violation of law**; or
 - (B) is made in a complaint or other document is filed in a lawsuit or other proceeding, if such filing is made under seal.



DTSA – Safe Harbor (18 U.S.C. § 1833)

- New Notice Requirements *for Employers*:
 - To get **punitive damages and attorney fees**, a company **must notify employee of immunity**. Can be accomplished by providing provision in agreement or cross-reference to policy document that sets forth reporting policy for a suspected violation of law.
 - Applies to contracts that are updated **after** the date of enactment. ***So current existing contracts should be revised!***



Sample Provision

The Company advises and I acknowledge my understanding that, pursuant to the Defend Trade Secrets Act of 2016 (“DTSA”), whistleblower and retaliation claim immunity is extended to me. In this regard, I will not be subject to any criminal and/or civil liability for A) the direct or indirect disclosure of trade secret information in confidence to federal, state or local authorities, or to an attorney, for the sole purpose of investigating or reporting suspected violations of law, or B) disclosure in a complaint or other document filed in a lawsuit or other proceeding if it is filed under seal so that it is not disclosed to the public. Additionally, I will not be subject to any criminal and/or civil liability for divulging trade secret information to my attorney or in the filing of a lawsuit for retaliation by the Company for reporting a suspected violation of law, so long as documents containing the trade secrets are filed under seal and not disclosed except by court order.

DTSA Impediments to Restrictions on Employment

DTSA Impediments to Restrictions on Employment

(3) **Remedies.** In a civil action brought under this subsection with respect to the misappropriation of a trade secret, a court may--

(A) grant an ***injunction***--

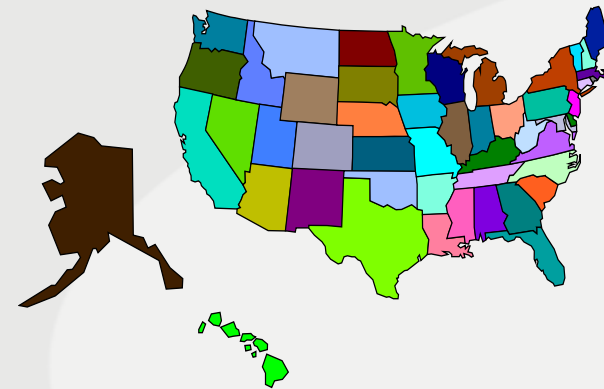
(i) to prevent any actual or threatened misappropriation described in paragraph (1) on such terms as the court deems reasonable, **provided the order does not--**

(I) **prevent a person from entering into an employment relationship, and that conditions placed on such employment shall be based on evidence of *threatened misappropriation and not merely on the information the person knows***; or

(II) **otherwise conflict with an applicable State law prohibiting restraints on the practice of a lawful profession, trade, or business;**

DTSA Impediments to Restrictions on Employment (cont.)

- Statutory prevention of use of “Inevitable Disclosure Doctrine” in DTSA *injunction orders*
- **SOME** States recognize “inevitable disclosure doctrine”
- Prevents an employee from going to a competitor for what they KNOW.
- E.g. *PepsiCo v. Redmond*, 54 F.3d 1262 (7th Cir. 1995) (Imposed covenant in absence of same in light of **threatened misappropriation** under ITSA as a result of what former E’ee **knew**, not in light of any evidence of disclosure)
 - Other States **recognizing** Inevitable Disclosure Doctrine:
 - Arkansas,
 - Delaware (*E.I. Dupont v. Amer. Potash*—first court to use the phrase “inevitable disclosure doctrine.”)
 - Georgia? (Compare *Essex v. Southwire* with *Holton v Physician Oncology*)
 - Illinois
 - Iowa
 - New Jersey
 - North Carolina
 - Utah
 - Washington
 - States specifically **rejecting** Inevitable Disclosure Doctrine:
 - California
 - Louisiana
 - Maryland
 - Virginia



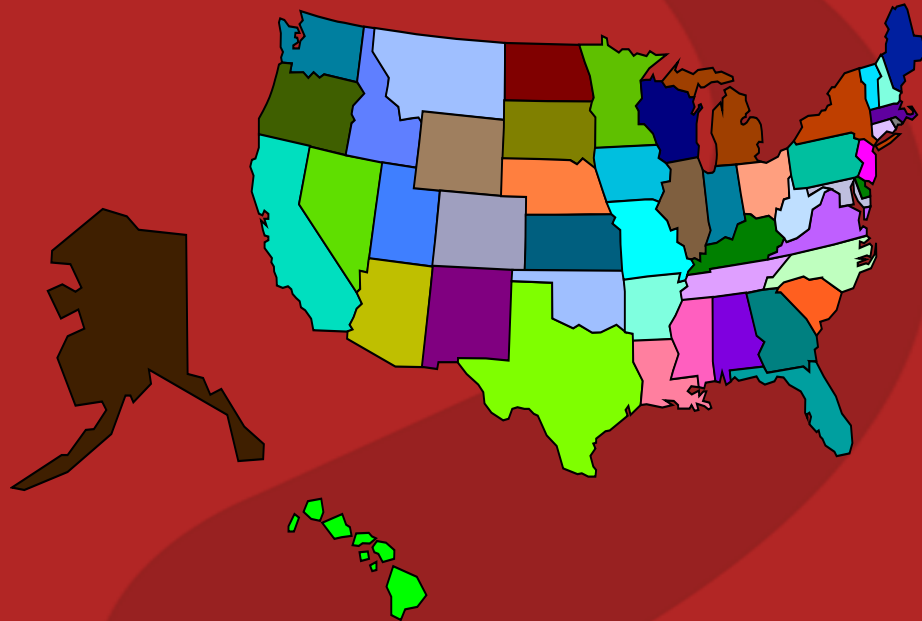
Who Can Prosecute Trade Secret Cases?

Presented By:



CoolClips.com

Federal Defend Trade Secrets Act (DTSA)

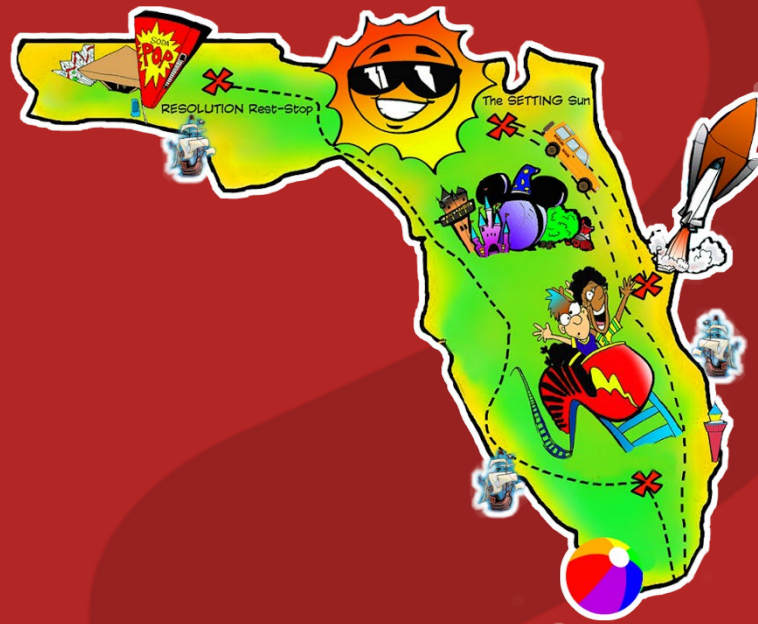


DTSA “Ownership”

- 18 U.S.C. § 1836(b)(1):
 - IN GENERAL.—An owner of a trade secret that is misappropriated may bring a civil action under this subsection if the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce.



FLORIDA Uniform Trade Secrets Act (FUTSA)

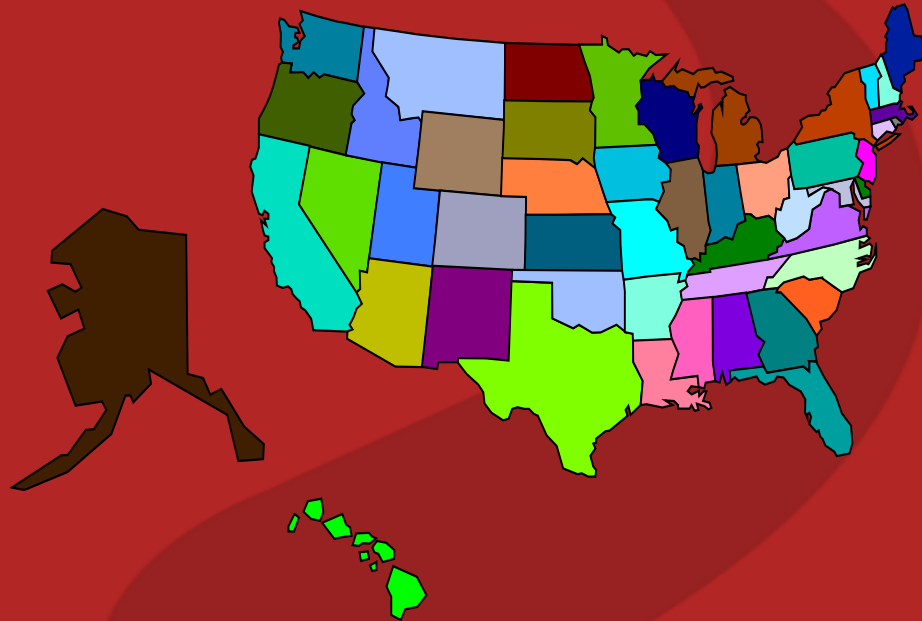


Florida “Ownership”

- **688.002 Definitions.**—As used in ss. 688.001-688.009, unless the context requires otherwise:
 - (2) “Misappropriation” means:
 - (a) Acquisition of a trade secret **of another** by a person who knows or has reason to know that the trade secret was acquired by improper means; or
 - (b) Disclosure or use of a trade secret **of another** without express or implied consent by a person who: ...



Uniform Trade Secrets Act (UTSA)



UTSA “Ownership”

§1. Definitions

As used in this Act, unless the context requires otherwise:

(2) "Misappropriation " means:

(i) acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or

(ii) disclosure or use of a trade secret of another without express or implied consent by a person who



Advanced Fluid Systems v. Huber, 3rd Cir.

2020

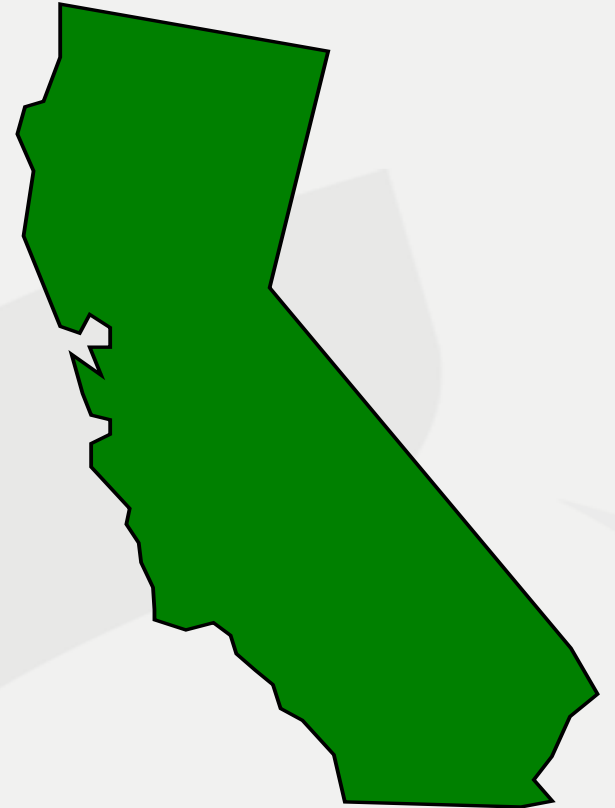
- The court relied on a Fourth Circuit decision, *TSM Research, L.L.C. v. AT & T Corp.*, 245 F.3d 327 (4th Cir. 2001)
- explained that on its face, the Pennsylvania Uniform Trade Secrets Act (“PUTSA”) – like the Maryland Uniform Trade Secrets Act (“MUTSA”) – lacks an ownership requirement.
- The court further explained that trade secrets are a “species of property” and ownership is not the sole interest subject to protection.
- It therefore concluded that⁸¹ “lawful possession” of a

Who Owns The Trade Secret - The Creator or the Employer?

Presented By:

California

- **Labor Code Section 2860** explicitly states:
- “Everything which an employee acquires by virtue of his employment, except the compensation which is due to him from his employer, ***belongs to the employer***, whether acquired lawfully or unlawfully, or during or after the expiration of the term of his employment.”
- ***Independent Contractors?***



Pennsylvania

- ***Wexler v. Greenberg***, 160 A.2d 430; 125 U.S.P.Q. 471 (Pa. 1960)
- Buckingham Wax Company's chemical formulas created by the head chemist, Mr. Greenberg, typically through reverse engineering competitors' formulas and then making improvements.
- Greenberg also had access to all of Buckingham's formulas made under his supervision, production methods and raw material suppliers.
- Quit and went to work for a different company, Brite Products Co., Inc.
- Began producing Buckingham's products (i.e., formulas that Mr. Greenberg developed at Buckingham).
- The Supreme Court of Pennsylvania found that though the formulas being used by Mr. Greenberg were trade secrets, they were all developed by Mr. Greenberg.



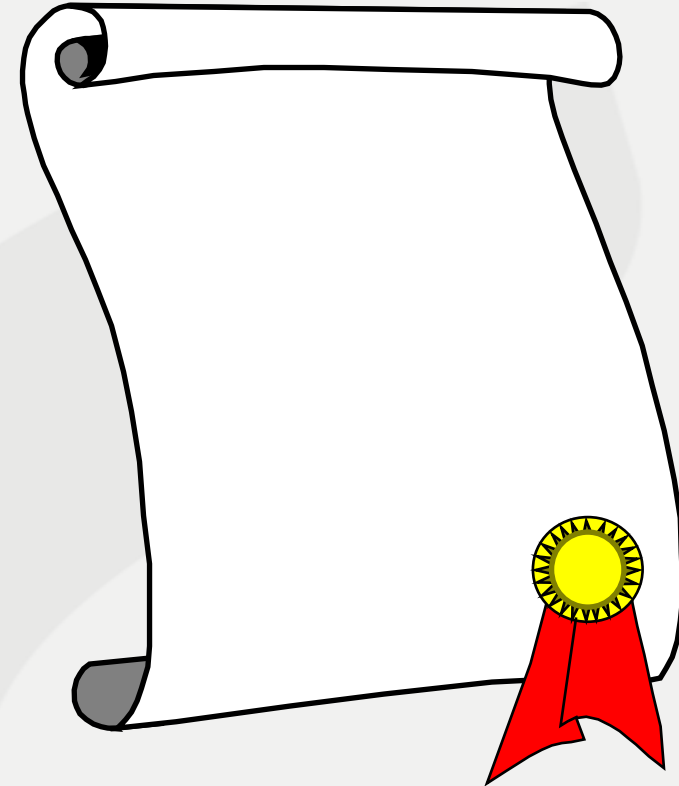
Iowa

- *Basic Chemicals v. Benson*, 251 N.W.2d 220 (1977) (IA 1977)
- Benson was an employee tasked to “establish formulae, lowest costs, highest profits in keeping with competitive markets, and otherwise be responsible for all details of” Basic Chemicals, Inc.
- After quitting, Mr. Benson became employed by Berman Chemical Company,
- Began selling products that Mr. Benson asserted to customers would have “physical and performance constants ... identical to those purchased from me in the past.”
- In light of “**letters written by Benson to salesmen and customers during his employment by Basic in which he recognized that the various formulas involved were secret and confidential. ... Benson praised the ‘know-how’ of Basic.**”
- Court found that the trades secret formula, though developed by Benson were not available for his use in latter employment.
- Case seems to have hinged on how Benson had characterized the trade secrets, and not by the proactive actions (i.e., employment agreements) of Basic.
- Begs the question, what if Benson had not characterized the formula in a way that could be held as an admission that he knew they were confidential?



Ownership

- **Patents--Generally** Vests in **Individual** that Creates IP
- **Trade Secrets– Unknown!**
- Company must require employees and vendors to **assign any and all present and future IP created by employee or vendor** resulting from:
 - **Employment,**
 - **Company Confidential Information,** or
 - **from performance of obligations set forth in the services agreement with vendor**



Questions?

The End

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