In this chapter, we consider the third category of intellectual property law protection, trade secret law, as well as the law relating to protection of unsolicited ideas. The chapter also discusses strategies that businesses can follow to best protect their intellectual property assets, including the use of contractual agreements such as covenants not to compete and nondisclosure agreements (NDAs).

**Trade Secret Law**

Trade secret protection is a critical issue for businesses in two respects. First, businesses need to know what to do to protect their trade secrets from being misappropriated. Misappropriation most commonly involves illegal disclosures by former employees or raids by competitors and, somewhat less frequently, misappropriation by foreign enterprises. Misappropriation is a particular risk in high-tech industries in which employee mobility and turnover are high. Second, businesses need to understand the consequences of deliberately or inadvertently misappropriating another’s trade secrets. What civil and/or criminal penalties might apply?

**Definition of “Trade Secret”**

While patent and copyright laws arise under federal law, trade secret law is primarily state law, although, as we will see, the federal Economic Espionage Act addresses theft of trade secret information in certain circumstances.

Originally, trade secret law was developed through the common law. A few states, including Massachusetts, New Jersey, New York, and Texas, continue to protect trade secrets under the common law. These states generally follow the definition of a *trade secret* found in the Restatement of Torts Section 757, comment b:

A trade secret may consist of any formula, pattern, device or compilation of information which is used in one’s business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it.
The majority of the states and the District of Columbia have codified the common law of trade secrets by adopting some version of the Uniform Trade Secrets Act (UTSA). The UTSA defines a trade secret as:

information, including a formula, pattern, compilation, program, device, method, technique, or process, that:

(i) 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

(ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.1

The definitions of trade secret under the UTSA and the Restatement are quite similar.2 In general, trade secrets include business and commercial information that: (1) has commercial value, (2) is not in the public domain, and (3) is subject to reasonable steps to maintain secrecy. Trade secrets include any information that can be of value to a company and its competitors, such as formulas, processes, computer programs, customer and supplier lists, strategic business data, financial projections, research results, marketing strategies, customer needs and profiles, business or product plans, and negative know-how (i.e., knowledge of what does or does not work), provided the information meets the requirements for secrecy. Thus, trade secret law protects assets that are not patentable as well as those that are. The requirement that trade secrets have “commercial value” does not mean that the business must currently have competitors who might value the information. Rather, it means that there must be actual or potential value from the information being held secret; potential rather than actual competition is sufficient.

In addition, trade secret information need not be kept absolutely secret, just “reasonably” secret. What is “reasonable” will vary with the circumstances. Generally, companies should limit the information to those employees who have a need to know and should take precautions to ensure confidentiality. Obviously, the firm must share trade secret information with necessary employees and even with outsiders, such as consultants, in certain circumstances. As one court noted: “The secrecy need not be absolute; the owner of a trade secret may, without losing protection, disclose it to a licensee, an employee, or a stranger, if the disclosure is made in confidence, express or implied.”3 To maintain the trade secret status of the information, however, the company must ensure that only a few, authorized outsiders know of the information and that those persons make an effort to keep it secret (see Case Illustration 3.1).

Public or readily available or ascertainable information is not entitled to trade secret protection. For example, trade secret information that can be quickly and easily reverse-engineered is entitled to little or no protection. (Reverse-engineering refers to the process of starting with a product and working backward to identify the process that led to its development or manufacture.) However, publicly-known information that is compiled or combined in a way that provides a competitive advantage that is not generally known in the industry may be protected as a trade secret.

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1The UTSA can be viewed at the website of the National Conference of Commissioners on Uniform State Laws at www.nccusl.org

2The most recent attempt to organize the law of trade secrets occurred in the Restatement (Third) of Competition Section 39 (1995), which provided a similar definition of trade secret: “A trade secret is any information that can be used in the operation of a business or other enterprise and that is sufficiently valuable and secret to afford an actual or potential economic advantage over others.”

See Discussion Cases 3.1, 3.2, 3.3.

Trade secret protection lasts only as long as the secret is maintained. Once the trade secret information enters the public domain, whether through careless security measures by the trade secret owner or through misappropriation or independent creation by another, the trade secret is lost.

Patent Protection versus Trade Secret Protection

In many instances, an invention may qualify for either patent or trade secret protection. In these cases, the inventor must choose which form of protection to pursue, as these are mutually exclusive options. A single invention cannot be protected through both patent and trade secret. For example, if the inventor makes secret commercial use of the invention for more than one year, the inventor loses the right to seek patent protection under the Patent Act and must protect the invention, if at all, as a trade secret. Conversely,
once a patent is issued or after the patent application is laid open, the information becomes public and trade secret protection is no longer possible.

United States law provides inventors with more flexibility in choosing between patent and trade secret protection than do the laws of most other countries, although that flexibility has been considerably reduced in light of the 1999 amendments to the Patent Act (discussed in Chapter 2). If the inventor does not file for foreign patents and his application for a U.S. patent is denied, the inventor can request that the application not be released to the public. The inventor can then treat the invention as a trade secret.

Most other countries do not offer inventors even this limited choice. Rather, they treat patent applications as public information and typically “lay open” the application within 18 months of its filing. Filing for a patent application in these countries thus automatically takes the information into the public domain and makes trade secret protection unavailable even if the patent ultimately does not issue. Similarly, if a U.S. inventor files for foreign patents, her U.S. patent application is also automatically laid open and her opportunity to seek trade secret protection lost. U.S. inventors should keep this limitation in mind in evaluating whether to pursue foreign patents on their inventions.

In deciding which form of protection—patent or trade secret—to pursue, the inventor must consider several factors:

- **Duration of protection.** Patents are limited to a term of 20 years, while trade secret protection lasts as long as the information remains secret. Theoretically, a trade secret can last forever. In practical terms, however, the life of a trade secret varies greatly depending upon the type of invention and the industry involved. The formula for Coca-Cola, which is a trade secret, is over 100 years old; a trade secret in the rapidly changing computer industry, on the other hand, may last only a year, or even less.

- **Scope of protection.** Patent protection is stronger than trade secret protection because it prevents even someone who independently invented the invention from making, using, selling, offering to sell, or importing the invention during the patent period. Trade secret protection, on the other hand, prohibits persons from using or disclosing the information only if they learned of it improperly. It does nothing to prevent persons who acquired the information independently or through legitimate means, such as reverse-engineering, from using the information.

- **Cost.** While it can be expensive and time-consuming to acquire a patent, trade secrets arise automatically under the law. There are no application procedures, no filing fees, and no formalities that must be followed. It can be expensive to maintain a trade secret, however, as discussed below.

### Ownership of Trade Secrets Created by Employees

Ownership issues arise when the trade secret involved is not a preexisting one revealed to the employee in the scope of her employment but, rather, is a trade secret created by the employee. If the parties had the foresight to sign an express agreement assigning ownership of such trade secrets to one party or the other, that agreement controls. In the absence of such an agreement, the question becomes whether the trade secret is the property of the employer or the employee.

Generally, the trade secret belongs to the employer if: (1) the employee was hired specially to do research of the type that led to the trade secret, and (2) the employer has put substantial time and resources at the disposal of the employee to develop the trade secret. Thus, a research scientist who develops a new substance while in his research lab at work has created a trade secret that belongs to the employer. In such instances, the employee is under a duty not to use or disclose the trade secret, even in the absence of an express employment contract so stating. If these two conditions are not met, however, the trade
secret belongs to the employee. For example, if Employer, a manufacturer of treadmills, hires Employee as a salesperson assigned to its wholesale clients and Employee, in her garage and on or her own time, invents an improved treadmill, the trade secret belongs to Employee.

If the employee was not hired to do research and development but nonetheless created a trade secret related to the employer’s business during working hours or using the employer’s equipment or materials, the employee owns the trade secret. The employer, however, has shop rights in the trade secret. Shop rights are an irrevocable, nontransferable, royalty-free right or license to use the trade secret in the employer’s business.

Generally, employers are not satisfied with obtaining shop rights in such trade secrets and want to own the trade secret outright. An invention assignment agreement (discussed below) is critical in such instances.

**Misappropriation of a Trade Secret**

Generally, misappropriation of a trade secret can occur in one of two ways: (1) an employee or other person with a duty of confidentiality toward the trade secret owner may wrongfully disclose or use the information, or (2) a competitor may wrongfully obtain the information.

**Violation of a Duty of Confidentiality** If the defendant has a duty of confidentiality toward the trade secret owner, the defendant’s disclosure or use of the trade secret is misappropriation. The duty of confidentiality most commonly arises as a result of a special relationship between the parties, such as an employer-employee, partner, or attorney-client relationship. This duty arises automatically under the law and does not depend upon the existence of any type of contract. An employee, for example, has a legal duty not to use or disclose his employer’s trade secrets without permission if the employee learned of those secrets within the scope of his employment even if the employee has not signed an employment agreement or other contract expressly addressing this topic. This duty of confidentiality binds the employee even after he leaves the employer’s employ. Thus, an employee cannot take the employer’s trade secrets to a new job.

Although not legally required, from the employer’s perspective it is always better to have an express, written nondisclosure agreement (NDA). The NDA usually requires the employee to expressly agree not to use or disclose any trade secrets belonging to the employer and often requires the employee to assign in advance to the employer all trade secrets he might create. (This topic is discussed further below.) The courts generally enforce such agreements provided that they are not unconscionable.

Another type of express agreement that is often used is a covenant not to compete, also known as a noncompete agreement. These agreements generally require the employee not to compete or to work for a competitor for a specified time period in a specified geographic region after leaving the employer’s employ. The advantage, from the employer’s perspective, of using such an agreement is that the agreement can cover confidential proprietary information that might not rise to the level of a trade secret. The disadvantage is that the courts dislike noncompete agreements as a matter of public policy and carefully scrutinize them to make certain that they do not infringe upon an employee’s ability to make a living. Noncompete agreements are invalid in a few states, such as California. (Noncompete agreements are discussed in more detail below.)

A number of courts have adopted the inevitable disclosure rule, which permits an employer to obtain an injunction prohibiting an employee from working for a direct competitor, even in the absence of a noncompete agreement, when it would be difficult for the employee to perform his new job without disclosing or relying upon the former employer’s trade secrets. This rule recognizes that people cannot easily segregate general information or knowledge from the trade secrets and confidential information of former employers.
The courts hesitate to issue injunctions under the inevitable disclosure rule, however, because of their concern that individuals not be deprived of their livelihoods. The Pennsylvania Supreme Court described the policy conflicts that nondisclosure rules generally raise, noting that trade secret law:

brings to the fore a problem of accommodating competing policies in our law; the right of a businessman to be protected against unfair competition stemming from the usurpation of his trade secrets and the right of an individual to the unhampered pursuit of the occupations and livelihoods for which he is best suited .... Society as a whole greatly benefits from technological improvements. Without some means of post-employment protection to assure that valuable developments or improvements are exclusively those of the employer, the businessman could not afford to subsidize research or improve current methods. * * *

On the other hand, any form of post-employment restraint reduces the economic mobility of employees and limits their personal freedom to pursue a preferred course of livelihood. The employee’s bargaining position is weakened because he is potentially shackled by the acquisition of alleged trade secrets; and thus, paradoxically, he is restrained, because of his increased expertise, from advancing further in the industry in which he is most productive.  

To avoid liability for misappropriation of a competitor’s trade secrets, a company should take care when recruiting new employees. In some instances, it may be best not to recruit particular individuals. The recruit should be informed at the beginning of the interview process that the interviewing company does not want information about or access to any competitor’s trade secrets. If the recruit is hired, she should be informed again (in writing) of this policy. The recruit should not bring confidential documents or materials to the new job and should not be placed into jobs in which she might be tempted to use such information, even inadvertently, including jobs that involve reverse-engineering or independent creation of products similar to those of the previous employer. If the recruit has entered into a noncompete agreement or NDA with the former employer, the new employer should review the contracts carefully to ensure that the new employment does not violate any of the valid provisions of the agreements. The new employer should document in writing all efforts undertaken to avoid trade secret misappropriation in the event that the previous employer alleges misappropriation at some point in the future.

**Unlawful Acquisition of a Competitor’s Trade Secret Information**  
Certain types of behavior are regarded as unlawful means of obtaining trade secret information. *Illegal conduct*, such as theft, trespass, fraud, misrepresentation, wiretapping, and bribery, is not permitted. Acquisition of a competitor’s trade secrets through *industrial espionage*, such as electronic surveillance or spying, is also not permitted. Moreover, a competitor who purchases trade secret information, knowing that it was improperly obtained, is liable for misappropriation just as though the competitor had engaged in the misappropriation directly.

**Lawful Acquisition of a Competitor’s Trade Secret Information**  
There are a number of legitimate means by which a competitor can gain access to trade secret information. If the owner (or its employee) puts the information into the public domain, e.g., by publishing it in brochures or other materials or by talking about it in public places, competitors may legally use that information. In addition, competitors are permitted to reverse-engineer trade secret information through inspection of a product or

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examination of published literature. Competitors may also independently create the information without incurring liability for misappropriation.

It is also legal for a company to obtain public information about its competitor’s trade secrets through competitive intelligence activities. These activities include the gathering of either primary data (i.e., information gathered from direct sources such as telephone or in-person interviews) or secondary data (i.e., information gathered from indirect sources, such as consultants, published documents, or patents). For example, competitive intelligence information can be obtained through Internet searches, attendance at trade shows, interviews with securities analysts and suppliers, examinations of UCC filings, visits to competitors’ facilities, or discussions with competitors’ customers.5

While a firm can use competitive intelligence techniques proactively to enhance its own market position, the firm also needs to be aware that it may be the target of such actions by its competitors as well. Although a firm cannot block all such activities by its competitors, simple steps such as shredding sensitive documents before placing them in the trash, monitoring factory visits from outsiders, and controlling access to sensitive data can minimize the risks (see Exhibit 3.2).

**Remedies for Trade Secret Misappropriation**

Two general types of remedies are available for trade secret misappropriation: (1) injunctions and (2) monetary damages. In addition, the federal Economic Espionage Act provides for criminal penalties for certain types of trade secret misappropriation.

**Injunctions** Generally, it is relatively easy to get an injunction against trade secret misappropriation. The more difficult question typically is how long the injunction should last. The majority of courts limit the injunction to the life of the trade secret. This can be measured up front by how long the court estimates the trade secret will endure. Alternatively, the court can issue an injunction of indefinite length that allows the defendant to petition the court to have the injunction lifted if and when the trade secret enters the public domain (e.g., through reverse-engineering or independent creation by others).

A minority of courts will issue a perpetual injunction on the theory that the defendant’s breach of confidence or improper conduct warrants such punishment. This prevents the

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5For general information on the competitive intelligence industry, see the webpage of the Society of Competitive Intelligence Professionals at www.scip.org
defendant from using the trade secret information even once it is generally known within the industry and is available to other competitors. It thus puts the defendant at a considerable disadvantage compared both to the plaintiff and to other competitors.

**Monetary Damages** Depending upon the circumstances, the court may select from a variety of types of monetary damages:

1. the *lost profits* that the trade secret owner has incurred as a result of the defendant’s misappropriation of the trade secret;
2. *unjust enrichment damages*, often measured as the amount of profits that the defendant made as a result of the misappropriation; or
3. a *reasonable royalty* for the defendant’s use of the trade secret during the time at issue (measured by the amount that reasonable parties would have agreed to if they had willingly negotiated for a license to use the trade secret during an arm’s-length transaction).

**Double Damages and Attorneys’ Fees** Under the UTSA, the court can award up to *double damages* for willful and malicious trade secret misappropriation. In addition, the court can award *attorneys fees* to the prevailing party in cases of willful and malicious misappropriation by the defendant or bad faith by the trade secret owner. As noted in Chapter 2, enhanced damages and awards of attorneys’ fees are rare in the U.S. legal system and are available only where specifically authorized by statute.

**Criminal Prosecution** Both civil and criminal proceedings can be brought against an individual alleged to have engaged in misappropriation. As of 1996, only about one-half of the states had statutes imposing criminal sanctions for theft of a trade secret. To address this gap in enforcement, Congress enacted the Economic Espionage Act, which took effect January 1, 1997. This federal statute provides that individuals convicted of trade secret theft can be fined up to $250,000 and corporations up to $5 million. In both instances, the fines can be doubled if the defendant acted in concert with a foreign instrumentality. In addition to the fines, the court may impose jail terms of up to 10 years (15 years if the defendant acted in concert with a foreign instrumentality) and subject the defendant to forfeiture of property.

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Congress’s main purpose in enacting the Economic Espionage Act was to provide redress for illegal activities of foreign governments, although the Act applies to purely domestic trade secret misappropriation as well. The Department of Justice, which enforces the Act, has stated that it will exercise restraint in bringing federal charges under the Act, noting that civil remedies for trade secret misappropriation are generally available under state law. In determining whether federal criminal prosecution is also appropriate in any particular circumstance, the Department of Justice considers factors such as: “(a) the scope of the criminal activity, including evidence of involvement by a foreign government, foreign agent or foreign instrumentality; (b) the degree of economic injury to the trade secret owner; (c) the type of trade secret misappropriated; (d) the effectiveness of available civil remedies; and (e) the potential deterrent value of the prosecution.”

In 2008, for example, a Chinese national residing in California, Xiaodong Sheldon Meng, a software engineer, was sentenced under the EEA to 24 months in prison, three years of supervised release following his prison term, a fine of $10,000, and a forfeiture of computer equipment used in the violation. Meng misappropriated trade secrets involving products used to simulate real-world motion for military-training purposes, with an intent to benefit a foreign government (the People’s Republic of China Navy Research Center).

Protection of Trade Secrets

Businesses must have reasonable security precautions in place in order to claim protection for their trade secrets. A proactive policy is best. The company should start by conducting a trade secret audit to gain an understanding of what trade secrets it owns and how well its current company policy protects those secrets. The audit should be repeated periodically to ensure that appropriate measures are taken to protect new trade secrets as well.

Employees are the largest source of leaks of trade secrets, so careful management of the employer-employee relationship is needed. All employees should be informed about the company’s trade secret policies and the consequences of violating those policies. The company should develop written policies regarding trade secret protection and should communicate those policies clearly and emphatically to all employees who might have access to such secrets. Access to trade secrets should be limited to those employees who have a need to know specific information, and the employees should be explicitly instructed that the information is a trade secret. The company should clearly label confidential documents as such but should avoid labeling every piece of information “confidential.” In addition to making it difficult for employees to distinguish between truly secret information and routine information, incorrect or excessive designation of information as confidential may weaken the company’s ability to assert trade secret protection in the event of misappropriation or litigation.

The company should destroy written information once it is no longer needed. The company should instruct employees to use passwords and security codes on sensitive computer files and to lock desks, filing cabinets, and offices when not in use. It should caution employees not to discuss confidential information in the presence of outsiders, over unsecure phone lines (particularly over cell phones), or in public. The company should also monitor and restrict access by plant visitors, including repair or service personnel.

The most important element of a proactive trade secret program, however, is the use of express contractual agreements, especially NDAs. This is a contractual promise by an employee not to make unauthorized use or disclosure of trade secrets. Senior managers

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7 See www.usdoj.gov/usao/foia_reading_room/usam/title9/59mcrm.htm
8 See www.usdoj.gov/opa/pr/2008/June/08-nsd-545.html
and technical staff should also be required to sign noncompete agreements. NDAs and noncompete agreements are discussed in more detail below.

Finally, the company should conduct exit interviews to remind departing employees of their obligation to maintain the employer’s trade secrets even after they have ceased working for the employer.

**International Aspects of Trade Secret Protection**

As with patent law, the ability of the United States to regulate trade secrets abroad is constrained by its territorial boundaries. When a U.S. court is unable to obtain jurisdiction over the parties or when the infringing goods are not imported into the United States, U.S. courts and government agencies are generally powerless to restrict a foreign party’s exploitation of a competitor’s trade secrets abroad, even if the exploitation would be illegal under U.S. law.

As a result, businesses need to be very careful when they license or transfer trade secrets abroad. Whenever a business establishes foreign operations, enters into ventures with foreign partners, or shares information or personnel with foreign sources, the business needs to carefully investigate the host country’s trade secret laws, as those laws will likely govern in the event of a dispute or problem.

Laws regarding trade secret protection vary greatly around the world, but generally we are seeing a movement toward greater protection of trade secrets and greater harmonization of national laws. Japan, Korea, and Mexico enacted their first trade secret protection statutes in 1991; China followed in 1993. In addition, the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement of the Uruguay Round of GATT requires member countries to protect against the acquisition, disclosure, or use of a party’s trade secrets “in a manner contrary to honest commercial practices.” This agreement should ultimately lead to stronger and more harmonized trade secret protection laws among member countries.

**The Law of Unsolicited Ideas**

Very often, individuals develop ideas for new products or services that they are unable or unwilling to pursue on their own. The inventor will offer the idea to an established company, hoping that the company will compensate the inventor in exchange for the right to commercialize the invention. Both inventors who approach companies and the companies who are approached need to be careful about the manner in which the relationship develops, lest they find themselves in an undesirable legal position.

**From the Inventor’s Perspective**

Before disclosing his invention to the company, the inventor must make certain that the company recognizes either that it must pay for the idea or, if it chooses not to purchase the invention, that it must keep the idea confidential. If the inventor simply reveals the details of his invention without first obtaining this understanding, the inventor could inadvertently lose his rights in the invention.

Thus, before revealing the invention, the inventor should contact the company to make certain that the company understands that the inventor is seeking to sell or license the invention. As a practical matter, the inventor should get the company to sign an agreement stating that the company will review the invention but will keep the invention confidential and will pay a reasonable purchase price or royalties if it pursues the idea. Often, such agreements state that the company is not obligated to pay if it was already familiar with the invention or if the invention was already publicly known. Even if the parties do not enter into an express contract, the courts may well “imply” the existence.
of a contract that protects the interests of the inventor provided the inventor has made his position clear prior to revealing his ideas (see Case Illustration 3.2).

**From the Company’s Perspective**

Companies who may be approached by inventors with unsolicited ideas face a different set of problems. Many companies are inundated by calls and letters from inventors regarding unsolicited ideas and inventions. The companies may well already be aware of similar inventions or may be working on similar inventions themselves. The companies are legitimately concerned that rejected inventors will conclude that a company who later comes out with a similar invention stole the unsolicited idea from the inventor and will sue.

Most companies have standard procedures for dealing with the submission of unsolicited ideas.\(^9\) Many simply do not consider unsolicited ideas under any circumstances and return the letter of inquiry to the sender without reviewing the ideas contained in it.

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\(^9\)For an example, see the Hershey Company website, at www.thehersheycompany.com/legal_info.asp
Some companies review unsolicited ideas but require the inventor to first sign a written waiver (generally supplied by the company) that relieves the company of any liability for disclosing confidential information and that explicitly states that no relationship is formed between the parties as a result of the company’s review of the inventor’s materials. Many of these companies review the invention only if it is already covered by a patent. This policy ensures that the ownership rights in the invention are both clear and assignable in the event the company wishes to pursue the invention.

See Discussion Case 3.5.

Business Strategies for Protecting Intellectual Property Assets

Companies can take a number of actions to protect their intellectual property assets. Specifically, in many (but not all) instances, firms may be able to use contractual agreements, such as covenants not to compete and NDAs, to protect these assets. More generally, companies should conduct periodic intellectual property audits to determine the nature and scope of their assets and to evaluate protection measures in place. In addition, several specialized software programs are now on the market to assist companies in managing their intellectual property assets.

Contractual Agreements

There are several different types of contractual agreements that employers should consider using to protect their interests in intellectual property assets, including covenants not to compete, NDAs, and invention assignment agreements. Each of these agreements is governed by state law.

Covenants Not to Compete  Covenants not to compete are agreements in which the employee agrees not to compete with the employer in certain specified manners after leaving its employ. Noncompete covenants are also commonly used when a business is sold (to prevent the former owner from competing with the new owner) or when a partnership is dissolved (to prevent one partner from competing with another). Typically, these agreements restrict the ability of the former employee to work for competitors, conduct or solicit business from the former employer’s customers, or use the former employer’s confidential business information. Covenants not to compete are governed by the common law regarding restraints of trade (discussed further in Chapter 4).

As a matter of public policy, courts dislike noncompete covenants. The courts are concerned that such agreements may prevent an employee from making a livelihood in his profession. In addition, the courts favor the free flow of labor and fear that widespread use of noncompete covenants could impede a competitive marketplace for labor. As a result, some states do not permit such agreements. Many other states place significant restrictions upon the use of such agreements, permitting them, for example, in the sale of a business but not in the employment context.

In general, covenants not to compete must meet several legal requirements. First, they must be ancillary (or subordinate) to another contractual agreement. In an employee-employer relationship, this generally means that the parties must have entered into a formal, written employment contract. In the absence of such an employment contract, many courts regard the covenant not to compete as an illegal restraint on trade.
Second, the covenant not to compete must be narrowly drawn so as to protect only
the legitimate interests of the employer. Mere protection of the employer from competi-
tion is insufficient. Rather, the covenant must be designed to protect business assets such
as trade secrets of the employer, a customer base, confidential business information, or
business goodwill.

Third, the covenant not to compete must be restricted in terms of both: (1) duration
and (2) geographic scope. These determinations are highly fact-specific and are made on
a case-by-case basis. Covenants with a duration of one year or less are generally consid-
ered valid; covenants of several years are generally considered overbroad. As a general
rule, the covenant should not exceed the period of any employment contract given to
the employee. Thus, if the employee has a two-year employment contract, the covenant
not to compete should not extend more than two years after termination of that
employment.

The advent of the Internet and the increasingly rapid pace at which technology is
changing are having profound impacts on the way in which courts evaluate the reason-
able duration of covenants not to compete. Even one-year noncompete agreements that
historically would have been found valid in virtually every instance have been held in-
valid in the fast-paced high-technology world. Employers may need to revise their stan-
dard boilerplate noncompete agreements and tailor them to the specifics of the industry
in which they operate.

Permissible geographic scope is determined by the scope of the company’s activities.
As a general rule, the geographic area covered by the covenant cannot exceed the area in
which the employer currently does business. As commerce continues to become more
national and international in scope, however, and as business activity on the Internet
continues to develop, this rule is likely to erode (see Case Illustration 3.3).

The most common remedy granted for breach of a valid covenant not to compete is
an injunction that requires the employee to adhere to the terms of the covenant and
to cease any impermissible competition. Monetary damages are also available in some
instances.

See Discussion Cases 3.3, 3.4.

Nondisclosure Agreements  A nondisclosure agreement (also known as a proprietary
information agreement) is a contractual agreement that prohibits an employee from re-
vealing or using trade secrets or proprietary information. Although the common law of
unfair competition generally prohibits employees from using or disclosing trade secrets
or other confidential information even in the absence of an explicit contractual agree-
ment, it is still wise for employers to use an NDA.

Use of such agreements not only strengthens the employer’s legal position in the
event of a breach by showing that the employer has taken reasonable measures to protect
its trade secrets but also serves to emphasize to the employee the importance of trade
secret protection. In addition, the NDA may protect confidential information that does
not rise to the level of a trade secret and thus is not protected under common law.
Courts do not like NDAs as a matter of public policy, however, and often impose signif-
icient limitations on them.

An NDA can be a stand-alone document or can be part of a larger employment con-
tract. Every employee with potential access to trade secrets, including clerical and custo-
dial staffs, should be required to sign an NDA. In addition, consultants, independent
contractors, potential investors, and others with access to trade secrets should be re-
quired to sign a confidentiality agreement before any confidential information is released
to them.
Even states that do not allow covenants not to compete typically allow NDAs. Although a few states impose the same restrictions upon NDAs as they do upon non-compete agreements (i.e., restrictions on duration, geographic area, and scope), most states do not hold NDAs to the same level of scrutiny as they do noncompete agreements.

A properly drawn NDA does several things. First, the NDA provides clear notice to the employee of the confidential nature of the information at issue. Generally, the law does not impose a duty upon an employee to maintain the confidentiality of information when the employee has not been notified that the information is secret. Second, the NDA informs the employee as to her responsibilities regarding such information (particularly required efforts to maintain its confidentiality). Finally, an NDA should contain a promise (covenant) from the employee prohibiting the employee from disclosing or using such information after termination of employment (see Exhibit 3.3).

**CASE ILLUSTRATION 3.3**

**MARKET ACCESS INTERNATIONAL, INC. v. KMD MEDIA, LLC, 72 VA. CIR. 355 (2006)**

**FACTS** Plaintiff produces and distributes trade publications on homeland security and information technology security. Plaintiff contracted with Defendant to sell advertising space in its publication Homeland Defense Journal. Under this agreement, Defendant agreed not to compete with Plaintiff by selling or promoting publications that competed with Plaintiff’s publication for a period of one year following termination of the agreement.

Plaintiff alleged that Defendant conspired to create a competing publication and sued for enforcement of its noncompete agreement. Defendant argued that the lack of a geographic limitation rendered the noncompete agreement unenforceable as a matter of law.

**DECISION** The court enforced the agreement. The court stated:

Under Virginia law, a non-competition agreement may be enforced if the agreement is (1) narrowly drawn to protect an employer’s business interest, (2) is not unduly burdensome on an employee’s ability to earn a living, and (3) is not against public policy. Central to the analysis considering the reasonableness of these agreements is whether there are reasonable limits on duration, geographic area and whether the scope of the restrictions is narrowly tailored to protect the employer’s interest.

In this analysis Virginia courts do not consider geographic limitations alone; instead Virginia courts must consider together the intended function of the agreement and its duration as well as whether it contains a geographic limitation.

The court noted that many noncompete agreements contain geographical provisions limiting the area where the employee is not permitted to seek competing work to the area the business can expect to operate. While it is relatively easy to define this scope when a business operates in a regional market:

with the advent of the Internet and the nationalization of everything from products to ideas, this has become substantially more difficult. Homeland Defense Journal holds itself out as a national publication, and indeed homeland security itself is an issue that often lends itself to discussion on the national level.

While the agreement at issue lacked a geographic limitation, the agreement had a duration of only one year and limited the prohibited activities to those in direct competition with one journal. Moreover, the agreement explicitly recognized Defendant’s continuing relationship with other military publications it represented. Thus, the terms of the noncompete agreement were narrowly tailored to protect Plaintiff’s legitimate business interests while not prohibiting Defendant from competing in its chosen field, and so the noncompete agreement was enforceable.
Text not available due to copyright restrictions
**Invention Assignment Agreements**  An invention assignment agreement is one in which the employee agrees to assign to the employer any inventions that he or she may conceive of or create during her term of employment. The courts will enforce such agreements but will scrutinize them to make certain that they are fair. Thus, both the duration of the agreement and the scope of the rights granted must be reasonable under the circumstances.

The agreement should require the employee to disclose any preexisting inventions to which the employee claims ownership, as well as require the employee to disclose all inventions made during the course of employment as they occur. The agreement should also require the employee to cooperate in the pursuit of patents or copyrights on the inventions (see Exhibit 3.4).

**Intellectual Property Audits**

Every business should periodically conduct an intellectual property audit—a systematic review of the patent, copyright, trade secret, and trademark assets of the firm and an analysis of the company’s procedures for protecting those assets. A thorough intellectual property audit not only discloses the nature and extent of the intellectual property assets owned by the company but also reveals gaps in existing company policy by uncovering information, ideas, or inventions that should be protected by intellectual property laws but are not. The ultimate outcomes of the audit should be an inventory of the intellectual property assets held by the company and the creation of processes and procedures that will ensure that these assets are identified and protected in the future.

Because intellectual property assets implicate legal, technological, and business concerns, audits should be conducted by a team of persons from the marketing, research, manufacturing, information technology, and legal functions. The actual performance of the audit will vary according to the extent and nature of the company’s intellectual property activities.

In general, the audit team should inventory all inventions made by the company and should determine whether appropriate patents are in place. In particular, the company should evaluate its business processes to determine whether it should pursue business method patents on any of those processes. The audit team should determine whether third parties are infringing upon patents belonging to the company or whether the company is, even inadvertently, infringing upon the patents of others.

The audit team should identify all confidential or proprietary information held by the company and should review and assess the company’s trade secret efforts. If necessary, the company should implement additional measures to ensure that confidential information retains its secret status. In particular, the company should institute explicit email and Internet-use policies regarding the distribution of sensitive or confidential information and should employ state-of-the-art computer security and encryption technology.

The audit team should inventory all copyrighted works owned by the company. The audit team should review all agreements entered into with third parties who have created "works for hire" to ensure that proper assignments of the copyright to the company have been made. The company should also review the actions of its employees, as the company may incur copyright infringement liability for employee activities such as the loading of unlicensed software onto the company’s network or the unauthorized photocopying of materials. The company should clarify employee policies prohibiting such practices, if necessary.
EXHIBIT 3.4 Invention and Work Product Agreement

This Agreement between XYZ, Inc. including its direct and indirect subsidiaries and affiliates (hereinafter “XYZ, Inc.”) and Employee (hereinafter “Employee”) shall govern the responsibilities of Employee with respect to inventions. Entering into this agreement is a condition of Employee’s employment by XYZ, Inc. but the agreement does not purport to set forth the terms of said employment.

WHEREAS, Employee is or desires to be employed by XYZ, Inc. or one of its direct or indirect subsidiaries or affiliates in a capacity in which Employee may contribute to and/or make inventions which may or may not be patentable;

WHEREAS, XYZ, Inc. and its direct and indirect subsidiaries and affiliates develop and use valuable technical and non-technical proprietary information and inventions which XYZ, Inc. and/or its direct and indirect subsidiaries and affiliates may wish to prevent others from using either by patents or by keeping this material secret and proprietary;

NOW, THEREFORE, in consideration of Employee’s employment or continued employment by XYZ, Inc. or the relevant direct or indirect subsidiary or affiliate, it is agreed as follows:

1. Employee agrees to make a prompt and complete disclosure of every invention (as hereafter defined) which Employee conceives of or reduces to practice, and any patent application which Employee files, during the term of Employee’s employment and further agrees that every said invention and patent application is the property of XYZ, Inc. Employee understands that the term “invention” means any discoveries, developments, concepts, and ideas whether patentable or not, which relate to any present or prospective activities of XYZ, Inc. with which activities Employee is acquainted as a result or consequence of Employee’s employment with XYZ, Inc. Such inventions would include, but not be limited to processes, methods, products, software, apparatus, trade mark, trade names, advertising, and promotional material, as well as improvements therein and know-how related thereto. Employee further agrees that upon XYZ, Inc.’s request, but without expense to Employee, Employee will execute any so-called applications, assignments, and other instruments which XYZ, Inc. shall deem necessary or convenient for the protection of its said property in the United States and/or foreign countries and to render aid and assistance in any litigation or other proceeding pertaining to said property.

2. XYZ, Inc. agrees that any invention made by Employee in which XYZ, Inc. states in writing over the signature of its President & Vice President that it has no interest, may be freely-exploited by Employee.

3. Employee agrees that all writings, illustrations, models, and other such materials produced by Employee or put into Employee’s possession by XYZ, Inc. during the term of and relating to Employee’s employment are at all times XYZ, Inc.’s property and Employee will deliver the same over to XYZ, Inc. upon request or upon termination of Employee’s employment and shall be work made for hire under U.S. Copyright Laws. To the extent that such works are not works made for hire as defined by U.S. Copyright Law, Employee hereby assigns, transfers, and grants to XYZ, Inc. any and all rights (including but not limited to copyrights) in and to all works provided hereunder. Any and all copyright ownership claims which Employee may raise as a result of work undertaken pursuant to this agreement are hereby assigned, transferred, and granted to XYZ, Inc.

4. This Agreement does not apply to an invention for which no equipment, supplies, facility, or trade secret information of employer was used and which was developed entirely on the Employee’s own time, and (1) which does not relate (a) directly to the business of the employer or (b) to the employer’s actual or demonstrably anticipated research or development or (2) which does not result from any work performed by the Employee for the employer.

5. The obligations of Employee under this agreement shall continue beyond the termination of employment with respect to inventions conceived or made by Employee during the period of employment, and shall be binding upon Employee’s executors, administrators, and other legal representatives.

6. This Agreement supersedes and replaces any existing agreement, written or otherwise, entered into by Employee and XYZ, Inc. relating generally to the same subject matter. It is expressly understood, however, that nothing contained herein shall in any way alter the terms of any agreement between XYZ, Inc. and Employee, or any representative of Employee, with respect to collective bargaining agreements, termination, or any other aspects of employment which may be present and form part of an employment agreement between XYZ, Inc. and Employee.

Employee is to be employed at (insert XYZ, Inc. company) a direct or indirect subsidiary of XYZ, Inc.

**XYZ, Inc.**

By ____________________________________________

Date ____________________________________________

**Employee**

By ____________________________________________

Date ____________________________________________

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The audit team should identify all trademarks being used by the company. It should evaluate unregistered marks to determine whether the company should register those marks. The audit team should determine whether third parties are infringing upon the company’s trademarks or whether the company is infringing, even inadvertently, upon the marks of others.

Finally, the audit team should scrutinize employment agreements to make certain that the company is using and enforcing appropriate invention assignment agreements, non-compete covenants, and NDAs.

### EXHIBIT 3.5 Summary of U.S. Intellectual Property Law

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<td>Must be novel, nonobvious, and useful</td>
<td>Manufacture, use, offer for sale, or sale in U.S.; or use and sale in U.S. if invention made outside U.S. by patented process</td>
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DISCUSSION CASES

3.1 Trade Secrets—Definition

Robert E. Martin, a former employee of Al Minor & Associates, Inc. (“AMA”) appeals from a decision of the Franklin County Court of Appeals that affirmed a trial court judgment that … entered a $25,973 verdict in favor of AMA for fees not generated from former clients Martin had solicited using information he had memorized while working for AMA. * * *

The issue here concerns whether the use of a memorized client list can be the basis of a trade secret violation pursuant to Ohio’s Uniform Trade Secrets Act (“UTSA”). After review, we have concluded that the client information at issue in this case did not lose its status as a trade secret, or the protection of the UTSA, because it had been memorized by a former employee.

AMA is an actuarial firm that designs and administers retirement plans and that employs several “pension analysts” who work with approximately 500 clients. Al Minor Jr., who founded AMA in 1983 and serves as its president and sole shareholder, developed AMA’s clientele, for which the firm maintains a confidential list.

In 1998, AMA hired Martin as a pension analyst but did not require him to sign either an employment contract or noncompete agreement. In 2002, while still employed by AMA, Martin organized his own company, Martin Consultants, L.L.C., with the purpose of providing the same type of services as AMA. In 2003, he resigned from AMA and, without taking any documents containing confidential client information, successfully solicited 15 AMA clients with information from his memory.

After learning of Martin’s competing business, AMA filed the instant action against him … claiming that he had violated Ohio’s Trade Secrets Act by using confidential client information to solicit those clients. [The trial court found for AMA and awarded AMA a judgment of $25,973 against Martin.] * * *

Martin appealed … , arguing that a memorized client list does not satisfy the definition of a trade secret, a contention disputed by AMA. The court of appeals affirmed the trial court …. * * *

In this court, Martin asserts that a client list memorized by a former employee cannot be the basis of a trade secret violation and that the appellate court’s decision in this case overly restricts his right to compete in business against AMA. He also argues that AMA should not have the right to control the use of his memory and that AMA had the opportunity to protect its confidential information by way of an employment contract, which it did not do.

AMA counters that public policy in Ohio favors the protection of trade secrets, whether written or memorized; that the definition of a trade secret should focus on the nature of the information and potential harm that its use would cause the former employer; and that no meaningful difference exists between a written and memorized client list.

* * *

Ohio’s protection of trade secrets arose at common law. In one of the earliest appellate decisions concerning trade secrets, Natl. Tube Co. v. Eastern Tube Co. (1902), an Ohio circuit court defined a trade secret as “a plan or process, tool, mechanism, or compound, known only to its owner and those of his employees to whom it is necessary to confide it, in order to apply it to the uses for which it is intended.” In 1937, the court acknowledged that “[t]he authorities are quite uniform that disclosures of trade secrets by an employee secured by him in the course of confidential employment will be restrained by the process of injunction, and in numerous instances attempts to use for himself or for a new employee information relative to the trade or business in which he had been engaged, such as lists of customers regarded as confidential, have been restrained.”

* * *

In 1994, the General Assembly enacted the UTSA, R.C. 1333.61 through 1333.69, which defines a “trade secret” as:

“[I]nformation, including the whole or any portion or phase of any scientific or technical information,
design, process, procedure, formula, pattern, compilation, program, device, method, technique, or improvement, or any business information or plans, financial information, or listing of names, addresses, or telephone numbers, that satisfies both of the following:

(1) “It 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.”

(2) “It is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.”

R.C. 1333.61(D).”

Furthermore, in [State ex rel The Plain Dealer v. Ohio Dept. of Ins., 687 N.E.2d 661 (Ohio 1997)], we established a six-factor test for determining whether information constitutes a trade secret pursuant to R.C. 1333.61(D): “(1) The extent to which the information is known outside the business; (2) the extent to which it is known to those inside the business, i.e., by the employees; (3) the precautions taken by the holder of the trade secret to guard the secrecy of the information; (4) the savings effected and the value to the holder in having the information as against competitors; (5) the amount of effort or money expended in obtaining and developing the information; and (6) the amount of time and expense it would take for others to acquire and duplicate the information.”

Neither R.C. 1333.61(D) nor any provision of the UTSA suggests that, for purposes of trade secret protection, the General Assembly intended to distinguish between information that has been reduced to some tangible form and information that has been memorized. R.C. 1333.61(D) refers only to “information,” including “any business information or plans, financial information, or listing of names, addresses, or telephone numbers,” and the statute makes no mention of writings or other physical forms that such information might take. Furthermore, nothing in our six-factor test adopted in Plain Dealer indicates that the determination of whether a client list constitutes a trade secret depends on whether it was capable of being memorized or had been memorized.

The legislature, when enacting R.C. 1333.61(D), could have excluded memorized information from the definition of a trade secret or added a requirement that such information be reproduced in physical form in order to constitute a trade secret. But it did not, and we are not in a position to read such language into the statute. * * *

In addition, more than 40 other states have adopted the Uniform Trade Secrets Act in substantially similar form, and the majority position is that memorized information can be the basis for a trade secret violation. We acknowledge, however, that some courts adhere to the contrary position.

The majority position among our sister states is relevant with respect to the legislature’s intent, because “[t]he purpose of the enactment of the Uniform Trade Secrets Act was … ‘to make uniform the law with respect to their subject among states enacting them.’”

Treatises on the subject of trade secrets also support the majority position that the determination of whether a client list is a protected trade secret does not depend on whether a former employee has memorized it. For example, in 2 Louis Altman, Callmann on Unfair Competition, Trademarks and Monopolies (5th Ed. 2005) 14-192–14-195, Section 14.25, the text states that, “[a]s to customer lists, the older rule in some jurisdictions permits taking by memorization. In principle, however, the distinction between written and memorized information should not be encouraged. The form of the information and the manner in which it is obtained are unimportant; the nature of the relationship and the defendant’s conduct should be the determinative factors. The distinction places a premium upon good memory and a penalty upon forgetfulness, and it cannot be justified either from a logical or pragmatic point of view.”

Citing more recent cases, the Callmann treatise explains, “The modern trend is to discard the written-memorized distinction; and the Uniform Trade Secrets Act has abrogated the common law rule which permitted misappropriation of customer lists by memorization.” * * *

* * *

Based on the foregoing, we conclude that the determination of whether a client list constitutes a trade secret pursuant to R.C. 1333.61(D) does not depend on whether it has been memorized by a former employee. Information that constitutes a trade secret pursuant to R.C. 1333.61(D) does not lose its character as a trade secret if it has been memorized. It is the information that is protected by the UTSA, regardless of the manner, mode, or form in which it is stored—whether
on paper, in a computer, in one’s memory, or in any other medium.

Every employee will of course have memories casually retained from the ordinary course of employment. The Uniform Trade Secrets Act does not apply to the use of memorized information that is not a trade secret pursuant to R.C. 1333.61(D).

In this case, AMA’s client list constituted a trade secret pursuant to R.C. 1333.61(D), and the fact that Martin had memorized that client list before leaving AMA does not change its status as a trade secret or remove it from the protection of the UTSA. For these reasons, we therefore affirm the judgment of the court of appeals.

QUESTIONS FOR DISCUSSION FOR CASE 3.1

1. Was the definition of a test for trade secrets in Ohio developed by the legislature, the courts, or both?
2. Are the decisions of courts in other states on the issue presented in this case binding on the Ohio Supreme Court? If not, why does this court consider those decisions?
3. AMA failed to have Martin sign an employment contract protecting its confidential information. Why is that failure irrelevant to the outcome of this case?

3.2 Trade Secrets—Required Elements

_**Strategic Directions Group, Inc. v. Bristol-Myers Squibb Co., 293 F.3d 1062 (8th Cir. 2002)**_

Strategic Directions Group, Inc. (SDG) appeals from a judgment of the district court granting summary judgment in favor of Bristol-Myers Squibb Company (Bristol-Myers) in this trade secrets case. We affirm.

**Background**

SDG is a marketing research company owned and operated by Carol and Doran Levy. Bristol-Myers is a pharmaceutical company which manufactures Pravachol, a drug designed to reduce cholesterol. In 1996, a Bristol-Myers’ marketing manager read the Levys’ 1993 book, _Segmenting the Mature Market_, which dealt with marketing strategies for targeting consumers over 50 years old. One chapter of the book dealt with health issues. Based on survey responses to 50 classification questions, the book divided the market into four different kinds of customers, or segments. The classifications questions were statements to which the respondents were asked to agree or disagree, such as “I maintain a regular schedule of medical check-ups with my doctor” and “I am careful to eat a balanced diet.”

In May 1997 Bristol-Myers agreed to pay SDG $275,000 for “a copy of a reduced battery of classification questions for use in connection with the collection of data from persons calling a [Bristol-Myers’ toll-free] telephone number” published in Pravachol advertisements. The agreement further provided that the questions were only to be used “in connection with the database collected for Pravachol and only in connection with the [toll-free] telephone number.” In June 1997, SDG submitted nine questions relating to diet, medication, medical check-ups, and insurance. Bristol-Myers used some of them in a set of questions posed to callers to the toll-free telephone number. For example, callers to the telephone number were asked to agree or disagree to varying degrees to statements, including “I maintain a regular schedule of medical check-ups with my doctor” and “I am careful to eat a balanced diet.”

In 1999, SDG filed a complaint against Bristol-Myers, alleging … a misappropriation of trade secrets claim in violation of Minn. Stat. § 325C.01. The district court granted Bristol-Myers’s motion for summary judgment as to the trade secret claim …. As to the trade secret claim, the district court held that the nine questions SDG had provided Bristol-Myers were not trade secrets, because they were not secret. Among other things, the district court noted the questions were readily ascertainable in public sources, such as the Levys’ 1993
book, SDG annual surveys, and a copyright filing. Indeed, the district court noted that the nine questions SDG claimed were trade secrets were specifically designed for public consumption on the toll-free telephone number. * * *

**Discussion**

The district court did not err in granting summary judgment in favor of Bristol-Myers on SDG's trade secrets claim. To qualify as a trade secret under Minn. Stat. § 325C.01, “(1) the information must not be generally known nor readily ascertainable; (2) the information must derive independent economic value from secrecy; [and] (3) the plaintiff must make reasonable efforts to maintain secrecy.” Widmark v. Northrup King Co., 530 N.W.2d 588, 592 (Minn. Ct. App. 1995). SDG does not, and could not, dispute that the individual questions were readily ascertainable and that it made no attempt to keep them secret. To the contrary, SDG concedes that the nine questions were in Segmenting the Mature Market and presented in its annual surveys, public seminars, and a copyright filing. Thus, not only did SDG fail to make a reasonable effort to keep the questions secret, it repeatedly placed them in the public domain. Indeed, as the district court noted, the “questions were specifically designed for public consumption.” Anyone calling the toll-free telephone number had access to the questions.

SDG argues that even if the individual questions were not trade secrets, their combination was statutorily protected. We disagree. In some cases, a novel or unique combination of elements may constitute a trade secret. However, as here, “mere variations on widely used [information] cannot be trade secrets.” For example, in Jostens, Inc. v. Nat'l Computer Sys., Inc., 318 N.W.2d 691, 699 (Minn. 1982) the Minnesota Supreme Court held that a computer system was not a trade secret because it was merely a combination of known sub-systems, explaining the combination did not “achieve the degree of novelty or ‘unknowness’ needed for a trade secret.” Such is also the case here. “Simply to assert a trade secret resides in some combination of otherwise known data, is not sufficient ….” Id. Although Bristol-Myers paid SDG for selecting a reduced number of questions from its battery of questions, “the law of trade secrets will not protect talent or expertise, only secret information.” Here, the questions, individually or in combination, were not secret.

* * *

Accordingly, we affirm the judgment of the district court.

**QUESTIONS FOR DISCUSSION FOR CASE 3.2**

1. Why did the court find that SDG did not have a protectable trade secret?
2. Why did the court find that Bristol-Myers had not engaged in misappropriation?
3. If SDG did not have a valid trade secret here, why did Bristol-Myers enter into a contract to pay SDG $275,000 for these questions?

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### 3.3 Noncompete Covenant, Trade Secrets—Required Elements


Del Monte Fresh Produce N.A., Inc., alleges its former employee Kim Kinnavy breached her confidentiality and non-compete agreement when she left Del Monte to work for Chiquita Brands International. * * * Kinnavy den[ies] the allegations and move[s] for summary judgment .... * * *

**I. Factual Background**

For such a complex case, the facts are quite simple. Kim Kinnavy worked in the Illinois office of Del Monte as district sales manager from 1999 until she resigned in 2007. As a sales manager, Kinnavy worked with customers who had banana supply contracts. Del Monte gave its sales managers—including Kinnavy—laptop computers and access to Del Monte’s customer database. Two weeks before Kinnavy resigned, she used her laptop to e-mail herself files with the following titles: (a) Fuel surcharge; (b) Revised royal; (c) Contract renewals; (d) Pineapple update; (e) Phone list; (f) North American Customer Database 2005; (g) Fax List—Old Machine; (h) Fax List—III-6-06; and (i) CUSTMAST.xls. Kinnavy
also e-mailed a copy of the “Fax List” and the “Phone List” to Mike Elsen, a broker working in Phoenix Arizona. Kinnavy denies she used the files for commercial purposes or that the files contained confidential information. After resigning, Kinnavy went to work for one of Del Monte’s chief competitors: Chiquita Brands International.

Upon learning of Kinnavy’s new employment, Del Monte sued Kinnavy in the Circuit Court of Cook County. Next, Del Monte removed the case to this Court on the basis of diversity jurisdiction. The essence of Del Monte’s complaint is that Kinnavy violated federal law, and breached her employment agreements by working for a competitor and e-mailing confidential information to a third party. * * * Kinnavy move[s] for summary judgment on all claims.

***

III. Analysis

***

D. The Non-Compete Agreement is Unenforceable

Counts VI and VII of Del Monte’s Amended Complaint alleges Kinnavy breached Del Monte’s “Policy of Trade Secret and Non-Competition.” (“Non-Compete Agreement”) The Non-Compete agreement states:

For a period of 12 months from the date of Employee’s separation from the employment with the Company, the Employee shall not be employed by … or connected in any manner with, any business which represents, distributes, sells or brokers fresh vegetables, fresh fruit, and other fresh produce products: (a) to any person who or entity which is a customer of the Company on the date of termination of the Employee’s employment … or during the 12 month period prior thereto … or (b) on behalf of or supplied by any person who or entity which is a supplier of the Company at the date of termination …

***

As a general rule, Illinois courts are reluctant to enforce restrictive covenants. Post-employment restrictive covenants “operate as partial restrictions on trade” and must be carefully scrutinized by the reviewing court. Nevertheless, a restrictive covenant may be enforceable if its terms are “reasonable and necessary to protect a legitimate business interest of the employer.” A “restrictive covenant’s reasonableness is measured by its

hardship to the employee, its effect upon the general public, and the reasonableness of the time, territory, and activity restrictions.”

The Non-Compete agreement signed by Kinnavy is too broad and far-reaching to be enforceable. First, the Non-Compete contains no geographic restrictions. Thus, even if Kinnavy were to move to Lagos, Nigeria, she would still be bound by the restrictive covenant; this is unreasonable. In response, Del Monte argues extra restrictions are necessary because it is a multinational firm that competes globally. This argument misses the mark. For example, in Roberge v. Qualitek Int’l, Inc., [2002 U.S. Dist. LEXIS 1217, at *12 (N.D. Ill. Jan. 28, 2002)], the court analyzed a similar contention by an employer seeking to enforce a non-compete:

Qualitek asserts that because it has customers globally and has competitors throughout the United States … inserting an arbitrary boundary such as prohibiting Roberge from competing with Qualitek in the State of Illinois … would not protect Qualitek’s legitimate interests. While this is perhaps the most logical argument [Qualitek] could make … it is a position that has been rejected countless times by both state and federal courts in Illinois [citing cases] Given this compelling authority we reject Qualitek’s argument …

2002 U.S. Dist. LEXIS 1217, at *16-17 (emphasis added).

The Non-Compete agreement also contains blanket prohibitions on the types of employment Kinnavy can pursue. In Illinois, “an individual has a fundamental right to use his general knowledge and skills to pursue the occupation for which he is best suited.” But here, the Non-Compete prohibits Kinnavy from “being connected in any manner with” an entity that bought fruit, vegetables, or other produce from Del Monte. Under these terms, Kinnavy could not work as a cashier at a Piggly-Wiggly that bought produce from Del Monte. These restrictions are simply too broad to be enforceable. * * * Similarly, in Telxon Corp. v. Hoffman, the court refused to enforce a non-compete agreement where the scope of the prohibited activities [was] so broad that “the agreement would preclude Hoffman from working as a competitor’s janitor.” 720 F. Supp. 657, 665 (N.D. Ill. 1989). Because agreements “which restrict the signor’s ability to work for a competitor without regard to capacity have repeatedly been declared contrary to law” the Court finds Del Monte’s Non-Compete agreement is unenforceable.

Finally, Del Monte asks the Court—in the event the Non-Compete is found to be invalid—to re-write the contract so it is in compliance with Illinois law. The Court
declines Del Monte’s invitation. The Non-Compete agreement is simply too broad and far-reaching to be salvageable. Kinnavy’s motion for summary judgment as to Counts VI is granted.

E. The Court Declines to Sever the Invalid Portion of the Contract

The Court finds the restrictive covenant contained in the “Policy of Trade Secret and Non-Competition” is invalid as a matter of law. Therefore, the Court must decide whether the valid portions of the contract can be severed from the document. In general, “courts which will enforce a contract with a portion severed generally do so when the severed portion does not go to the contract’s essence.” Here, the non-competition clause was an essential feature of the contract at issue. The plain language of the contract states:

*each of the above provisions is essential to the Company and the Company would not furnish the Employee the consideration set forth in this Policy absent the Employee’s agreement to abide by and be bound by each of the above provisions.*

This language alone dooms Del Monte’s severability argument.

It is clear Del Monte intended this contract to be an all or nothing, take it or leave it proposition. In other words, the contract is not divisible. Again, the language of the contract is instructive: “The Company would not furnish the Employee the consideration set forth in this Policy absent the Employee’s agreement to abide by and be bound by each of the above provisions.” The Court will not sever the Non-Compete clause from the rest of the contract. Accordingly, the “Policy of Trade Secret and Non-Competition” is invalid and unenforceable. The Court grants Kinnavy’s motion for summary judgment as to Count VII.

F. Del Monte’s Illinois Trade Secret Act Claim is Deficient

Del Monte argues Kinnavy misappropriated certain confidential Del Monte data, and in doing so, she violated the Illinois Trade Secret Act. Specifically, Del Monte contends Kinnavy misappropriated: “prices, customer requirements, customer names, and contact information.” In response, Kinnavy contends the type of information she allegedly misappropriated is not protected under the [Illinois Trade Secret Act]. The Court agrees.

Under the Illinois Trade Secrets Act [ITSA], a plaintiff may recover for damages incurred as a result of the misappropriation of a trade secret. In order “to state a claim for trade secret misappropriation under the ITSA, a plaintiff must establish that it had: (1) a trade secret, (2) that the defendant misappropriated and (3) used for business purposes.” At issue here is whether Del Monte satisfied the first element. The ITSA defines “trade secret” as:

- information, including but not limited to, technical or non-technical data, a formula, pattern, compilation, program, device, method, technique, drawing, process, financial data, or list of actual or potential customers or suppliers, that:
  1. is sufficiently secret to derive economic value, actual or potential, from not being generally known to other persons who can obtain economic value from its disclosure or use; and
  2. is the subject of efforts that are reasonable under the circumstances to maintain its secrecy or confidentiality.

Del Monte argues its price information qualifies as a trade secret. But, the “Illinois appellate courts which have addressed the issue have consistently held that price information which is disclosed by a business to any of its customers … does not constitute trade secret information protected by the Act.” For example, in *Trailer Leasing*, the court declined to find that pricing information was a trade secret:

*It is also unclear as to why general rate information constitutes a trade secret. By all accounts, this is a highly competitive business, and it is unlikely that rate information is ever secret, and if so, that it remains secret for very long. If competitor “A” gives a customer an advantageous rate, it will not be long before the customer shops that rate around and tries to get competitor “B” to go even lower; that is the nature of a competitive market.*

*Trailer Leasing Co. v. Associates Commer Corp.*, 1996 U.S. Dist. LEK 11366, at *3 (N.D. Ill. Aug. 8 1996). There is no indication Del Monte’s customers were prohibited from divulging the prices they paid for bananas. There is no indication Kinnavy misappropriated a pricing formula. As such, the Court finds that price information alone cannot constitute a trade secret.

Del Monte also asserts the identity of its customers is entitled to protection under the ITSA. This is
incorrect. Rick Cooper—Vice President of Sales and Kinnavy’s supervisor—gave the following testimony during his deposition:

Q: Are you contending that Chiquita does not know who your customers are?
A: No. No, I’m not.
Q: Do you know who Chiquita’s customers are?
A: Yes, we do.
Q: Is there anything confidential about that?
A: No.

To be sure, Del Monte and Chiquita are fierce competitors. But, there seems to be little doubt about which customers are buying bananas from which company. Indeed, all one needs to do is go to the grocery store and look at the sticker on the bananas to see whether Del Monte or Chiquita is supplying the fruit. There is no protectable interest where a business’ customers are known throughout the industry. For example, one of the clients Del Monte claims it lost because of Kinnavy—The Horton Fruit Company—prominently displays on its website that it is “a licensed Dole re-packer.” During Cooper’s deposition, he admitted there would be nothing confidential or improper about someone walking into a grocery store and asking who supplied their bananas. The ITSA requires the protected information to be “sufficiently secret to derive economic value.” Here, the identity of customers buying fruit from Del Monte was not sufficiently secret to warrant protection under the ITSA.

Customer contact information that takes little effort to compile is not protectable under the ITSA. Cooper acknowledged Del Monte and Chiquita are well aware of each other’s customers. Thus, an individual would only need to look in the yellow pages to obtain the contact information of Del Monte customers. During his deposition Cooper was asked why the “phone list” Kinnavy e-mailed to Mike Elsen would be valuable to a competitor, he replied that it would “save somebody the time of looking Albertson’s Denver location up in the phonebook.” A list of grocery stores’ phone numbers is not “sufficiently secret” to confer trade secret status on Del Monte’s contact list.

Finally, Del Monte contends information about its customers’ needs and requirements is entitled to protection as a trade secret. The Seventh Circuit addressed a similar situation in 

Curtis 1000 v. Suess,

where a stationary [sic] company sued an ex-employee who left to work for a competitor. The Curtis 1000 company claimed the knowledge of its customers’ requirements was entitled to trade secret protection. The court began by noting that an employee can gain valuable insight into the behavior of long-term customers: “Customers often conceal their real needs, preferences, and above all, reservation prices in order to induce better terms from sellers. Suess presumably had sniffed out those true needs, preferences, and reservation prices.” The operative question, however, is whether the employee is selling a service or whether the employee is selling goods where there is no qualitative differentiation across the marketplace, in other words, a mere commodity:

Illinois cases distinguish between sellers of services, especially professional services such as accounting and consulting, and sellers of ordinary goods. In the former class, where the quality of the seller’s service is difficult to determine by simple inspection, customers come to repose trust in a particular seller, and that trust is a valuable business asset, created by years of careful management, that the employee is not allowed to take away with him.

In the latter class, involving the sale of goods, the element of trust is attenuated, particularly where as in this case the good is a simple and common one sold under competitive conditions. In these cases, Illinois law does not permit the seller to claim a protectable interest in his relations with his customers … For here current price and quality, rather than a past investment in meeting customers’ needs, are the decisive factors in the continued success of the firm, and they of course are not appropriated by the departing employee.

Curtis 1000 v. Suess, 24 F.3d 941, 948 (7th Cir. 1994). Kinnavy handled banana supply contracts for Del Monte. Bananas are simple, non-unique goods. The Court concludes Kinnavy and Del Monte were selling a commodity, rather than providing a service. In other words, the “decisive factors” in customers choosing Del Monte are pricing and quality. These are things that cannot be appropriated by Kinnavy. For example, Sean Walsh—the director of produce for Spartan Grocery Stores, Inc.—testified Spartan switched its contract from Del Monte to Chiquita in large part because Chiquita’s bananas were cheaper. This would make sense given that Spartan was buying a commodity. Simply put, if Del Monte provides delicious bananas to its customers at prices below Chiquita its business will succeed. The record does not support Del Monte’s claim.
that knowledge of its customers’ requirements is a trade secret. The Court grants Kinnavy’s motion for summary judgment as to Count VIII.

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QUESTIONS FOR DISCUSSION FOR CASE 3.3
1. Why is this state law claim being heard in federal court?
2. Why does the court conclude that this noncompete agreement is unenforceable? What terms in the agreement would need to be redrafted in order to make the agreement enforceable?
3. Why does court decline to exercise the “blue pencil rule” to salvage this agreement?
4. What information did Del Monte claim were trade secrets? Why did the court conclude there were no protectable trade secrets here?
5. Do you believe that Kinnavy’s actions were ethical? Why, or why not?

3.4 Covenants Not to Compete

Ticor Title Insurance Co. v. Cohen, 173 F.3d 63 (2d Cir 1999)

Defendant Kenneth C. Cohen (defendant or appellant) appeals from a judgment entered July 1, 1998 in the United States District Court for the Southern District of New York (Martin, J.) that issued a permanent injunction against him and in favor of plaintiffs Ticor Title Insurance Co. and Chicago Title Insurance Co. * * *

A principal question to be resolved is whether appellant’s services as an employee were so unique to his employer as to provide a basis for injunctive relief. In analyzing whether an employee’s services are unique, the focus today is less on the uniqueness of the individual person of the employee, testing whether such person is extraordinary in the sense, for example, of Beethoven as a composer, Einstein as a physicist, or Michelangelo as an artist, where one can fairly say that nature made them and then broke the mold. Instead, now the inquiry is more focused on the employee’s relationship to the employer’s business to ascertain whether his or her services and value to that operation may be said to be unique, special or extraordinary; that inquiry, because individual circumstances differ so widely, must of necessity be on a case-by-case basis.

Background

Facts Relating to Employment

A. The Parties

Plaintiffs are affiliated companies that sell title insurance nationwide. Title insurance insures the buyer of real property, or a lender secured by real property, against defects in the legal title to the property, and guarantees that, in the event a defect in title surfaces, the insurer will reimburse the insured for losses associated with the defect, or will take steps necessary to correct it. This kind of insurance is almost always purchased when real estate is conveyed. Ticor has been, and remains today, the leading title insurance company in New York State. It focuses primarily on multi-million dollar transactions that are handled by real estate lawyers. On large transactions more than one title insurance company is often employed in order to spread the risk.

Defendant Cohen was employed by Ticor as a title insurance salesman. Title insurance salespeople contact real estate attorneys, handle title searches for them, and sell them policies; those salespeople from different title insurance companies compete to insure the same real estate transaction, seeking their business from the same group of widely-known attorneys. Due to the nature of the business, those attorneys commonly have relationships with more than one title insurance company.

Cohen began working for Ticor in 1981, shortly after graduating from college, as a sales account manager and within six years was a senior vice president in charge of several major accounts. Thus, he has been a title insurance salesman for Ticor for nearly all of his professional career. His clients have consisted almost exclusively of real estate attorneys in large New York law firms. As his supervisor testified, Cohen obtains his business due to his knowledge of the business, his
professionalism, his ability to work through problems, and his ability to get things done.

B. Employment Contract
Ticor and Cohen, both represented by counsel, entered into an Employment Contract on October 1, 1995. There were extensive negotiations over its terms, including the covenant not to compete, which is at issue on this appeal. The contract’s stated term is until December 31, 1999, although Cohen—but not Ticor—could terminate it without cause on 30 days’ notice.

The non-compete provision … stated that during his employment with Ticor and “for a period ending on the earlier of … June 30, 2000 or … 180 days following [his] termination of employment,” Cohen would not:

for himself, or on behalf of any other person, or in conjunction with any other person, firm, partnership, corporation or other entity, engage in the business of Title Insurance … in the State of New York.

* * *

It also contains the following express representation regarding the material nature of the covenant not to compete:

[Ticor] is willing to enter into this contract only on condition that [Cohen] accept certain post-employment restrictions with respect to subsequent reemployment set forth herein and [Cohen] is prepared to accept such condition.

Negotiation of the post-employment non-competition provision of the Employment Contract culminated in a fax from Cohen’s counsel to Ticor’s counsel dated October 27, 1995 in which Cohen’s counsel provided a proposed final version that included some additional modifications. Ticor accepted this proposed final version, and it was embodied, verbatim, in the final executed agreement. Thus, the non-compete provision defendant now asserts is unenforceable was drafted (in its final form) by his own lawyer.

Cohen enjoyed exclusive responsibility for key Ticor accounts throughout the entire term of his employment. A number of the accounts for which defendant had exclusive responsibility predated his 17-year employment, and no other Ticor sales representative was permitted to service them during the term of the Employment Contract.

In consideration for Cohen’s agreeing to the recited post-employment restrictions, he was made one of the highest paid Ticor sales representatives, being guaranteed during the term of the Employment Contract annual compensation of $600,000, consisting of a base salary of $200,000 plus commissions. His total compensation in 1997 exceeded $1.1 million.

In addition to compensation, defendant received expense account reimbursements that by 1997 exceeded $150,000 per year, and which included fully paid memberships in exclusive clubs, as well as tickets to New York’s professional sporting events and Broadway shows. His fringe benefits went far beyond those provided other Ticor sales representatives whose expense reimbursements are generally limited to $30,000 per year. Cohen also had his own six person staff at Ticor, all of whom reported directly to him. No other Ticor representative had such staff support.

C. Breach of Contract
On April 20, 1998 TitleServ, a direct competitor of Ticor, offered to employ Cohen. As part of that offer, TitleServ agreed to indemnify Cohen by paying him a salary during the six-month period (i.e., the 180 days hiatus from employment) in the event that the covenant not to compete was enforced. Defendant sent plaintiff a letter on April 21, 1998 notifying it of his resignation effective May 21, 1998 and agreed to begin working for TitleServ on May 27, 1998.

Appellant commenced employment with his new employer on that date. His employment contract there guarantees him a minimum salary of $750,000 and a signing bonus of $2 million dollars, regardless of the outcome of this litigation. Cohen has received this signing bonus and has begun receiving salary payments, as scheduled. He admits to speaking with 20 Ticor customers about TitleServ before submitting his letter of resignation, and telling each of them that he was considering leaving Ticor and joining a competitor firm. Cohen maintains that this was an effort on his part to learn more information about TitleServ, including its ability to service the New York market and the opportunity he was being offered.

During the course of this due diligence, Cohen insists he never discussed transferring any business from Ticor to TitleServ, nor did he discuss any specific deals. However, this assertion is undermined by defendant’s deposition testimony concerning conversations with Martin Polevoy of the Bachner Tally law firm, in which he admits he directly solicited Polevoy’s business for TitleServ and, after initial resistance from Polevoy, eventually secured a promise that Polevoy will follow him by taking his firm’s insurance business to TitleServ.
Prior Proceedings

Ticor commenced this action on June 5, 1998 and applied that day for a temporary restraining order and preliminary injunction. [T]he district court entered a temporary restraining order. * * * On June 19, 1998 the district court heard further argument and extended the temporary restraining order for an additional ten days. * * *

On July 1, 1998 the district court issued its opinion and order permanently enjoining Cohen from working in the title insurance business and from appropriating Ticor’s corporate opportunities with its current or prospective customers for a period of six months. * * *

* * * From the grant of a permanent injunction, Cohen appeals. We affirm.

Discussion

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I Injunctive Relief

A. Irreparable Harm

An award of an injunction is not something a plaintiff is entitled to as a matter of right, but rather it is an equitable remedy issued by a trial court, within the broad bounds of its discretion, after it weighs the potential benefits and harm to be incurred by the parties from the granting or denying of such relief. An order involving injunctive relief will not be reversed unless it is contrary to some rule of equity or results from a discretion improvidently exercised. In other words, such an order is subject to reversal only for an abuse of discretion or for a clear error of law.

An injunction should be granted when the intervention of a court of equity is essential to protect a party’s property rights against injuries that would otherwise be irremediable. The basic requirements to obtain injunctive relief have always been a showing of irreparable injury and the inadequacy of legal remedies. * * *

[W]e think for several reasons irreparable harm has shown to be present in this case. Initially, it would be very difficult to calculate monetary damages that would successfully redress the loss of a relationship with a client that would produce an indeterminate amount of business in years to come. In fact, the employment contract sought to be enforced concedes that in the event of Cohen’s breach of the post-employment competition provision, Ticor shall be entitled to injunctive relief, because it would cause irreparable injury. * * *

We agree with the district court that irreparable injury exists in this case.

II Covenant Not to Compete

A. In General

We turn to the merits. To gain some insight into the subject of non-competition contracts, we look to an early common law case in England where much of the law in this area was set forth. That case is Mitchell v. Reynolds, 1 P. Wins. 181, 24 Eng. Rep. 347 (Q.B. 1711), which has, through the ensuing 290 years, been frequently cited and followed. There, plaintiff alleged defendant had for good consideration assigned him his bakehouse in Liquorpond Street for five years, and defendant had agreed not to engage in trade as a baker in that neighborhood for that time, and if he did he had to play plaintiff 50 pounds. When defendant began baking again, seeking the local trade, plaintiff sued. Defendant declared that because he was a baker by trade, the bond not to engage in that trade was void as a restraint on a person’s ability to earn his livelihood. [The court] disagreed and held that this particular restraint of trade was not void, because a “man may, upon a valuable consideration, by his own consent and for his own profit, give over his trade; and part with it to another in a particular place.” The English court added that all contracts containing only a bare restraint of trade and more must be void, but where circumstances are shown that make it a “reasonable and useful contract,” the contract will be ruled good and enforced by the courts.

The issue of whether a restrictive covenant not to compete is enforceable by way of an injunction depends in the first place upon whether the covenant is reasonable in time and geographic area. In this equation, courts must weigh the need to protect the employer’s legitimate business interests against the employee’s concern regarding the possible loss of livelihood, a result strongly disfavored by public policy in New York.

A scholarly commentator described the tension between these competing concerns, which we face in the case at hand, in this fashion: An employer will sometimes believe its clientele is a form of property that belongs to it and any new business a salesperson drums up is for its benefit because this is what the salesperson was hired and paid to do. The employee believes, to the contrary, the duty to preserve customer relationships cases when employment ends and the employee’s freedom to use contacts he or she developed may not be impaired by restraints that inhibit competition and an employee’s ability to earn a living. The always present potential problem is whether a customer will come to
value the salesperson more than the employer’s product. When the product is not that much different from those available from competitors, such a customer is ripe to abandon the employer and follow the employee should he go to work for a competitor.

That scenario fits the circumstances revealed by the present record. The way to deal with these conflicting interests is by contract, which is what the parties before us purported to do, only now appellant insists … that the non-compete provision is void as a contract in restraint of trade and therefore violates public policy.

The law points in a different direction. Over a hundred years ago New York’s highest court observed … that contracts in partial restraint of trade, if reasonable, are permitted. Because of strong public policy militating against the sanctioning of a person’s loss of the ability to earn a livelihood, New York law subjects a non-compete covenant by an employee to “an overriding limitation of reasonableness” which hinges on the facts of each case. Assuming a covenant by an employee not to compete surmounts its first hurdle, that is, that it is reasonable in time and geographic scope, enforcement will be granted to the extent necessary (1) to prevent an employee’s solicitation or disclosure of trade secrets, (2) to prevent an employee’s release of confidential information regarding the employer’s customers, or (3) in those cases where the employee’s services to the employer are deemed special or unique. In the case at hand we are satisfied that the reasonableness test was met because the duration of the covenant was relatively short (six months) and the scope was not geographically overbroad. In any event, appellant does not argue that the covenant is unreasonable in time and scope. Rather, he argues that the services he provided to Ticor were not sufficiently unique to justify injunctive relief.

B. Unique Services

New York, following English law, recognizes the availability of injunctive relief where the non-compete covenant is found to be reasonable and the employee’s services are unique. Services that are not simply of value to the employer, but that may also truly be said to be special, unique or extraordinary may entitle an employer to injunctive relief. An injunction may be used to bar such person from working elsewhere. If the unique services of such employee are available to a competitor, the employer obviously suffers irreparable harm.

Unique services have been found in various categories of employment where the services are dependent on an employee’s special talents, such categories include musicians, professional athletes, actors and the like. In those kinds of cases injunctive relief has been available to prevent the breach of an employment contract where the individual performer has such ability and reputation that his or her place may not easily be filled. We recognized this category of uniqueness in the case of the services of an acrobat who, in his performance, with one hand lifted his co-performer, a grown man, from a full-length position on the floor, an act described as “the most marvelous thing that has ever been [done] before.” * * *

It has always been the rule, however, that to fall within this category of employees against whom equity will enforce a negative covenant, it is not necessary that the employee should be the only “star” of his employer, or that the business will grind to a halt if the employee leaves. Hence, as noted earlier, in determining uniqueness the inquiry now focuses more on the employee’s relationship to the employer’s business than on the individual person of the employee.

The “unique services” category has not often been the basis upon which a New York court has granted an injunction, and thus its full ambit there is unclear. However, in Maltby v. Harlow Meyer Savage, Inc., 166 Misc. 2d 481, 486, 633 N.Y.S.2d 926 (Sup. Ct. N.Y. County 1995), aff’d, 223 A.D.2d 516, 637 N.Y.S.2d 110 (1st Dep’t 1996), the Supreme Court in New York County found that several currency traders were unique employees because they had “unique relationships with the customers with whom they have been dealing,” which were developed while they were employed and, partially at the employer’s expense. The district court found the facts in Maltby so similar to those in the case at hand that it felt compelled in applying New York law to grant an injunction. Like Maltby, all of Cohen’s clients came to him during his time at Ticor, and were developed, in part, at Ticor’s expense. For example, about half of Cohen’s clients he had attracted himself, but the other half were inherited from other departing Ticor salesmen. Cohen maintained these relationships, at least in part, by the use of the substantial entertainment expense account provided by Ticor. For instance, in 1997 Cohen spent $170,000 entertaining clients, and in the first five months of 1998 he spent about $138,000.

The trial court found Cohen’s relationship with clients were “special” and qualified as unique services. It deemed these relationships unique for several reasons. First, since the costs and terms of title insurance in New York are fixed by law, competition for business relies more heavily on personal relationships. Second, since potential clients—New York law firms with real estate practices—are limited and well known through the industry, maintaining current clients from this established group is
crucial. Third, the trial court noted that, as in *Maltby*, Cohen had negotiated his employment contract and the non-compete clause with the assistance of counsel and not from an inferior bargaining position.

*Maltby* found a trader’s absence from the market for six months did not make him unemployable or affect his ability to earn a living in the industry. Here, the non-compete period is also six months, and quite plainly Cohen is not disabled from reviving his relationships with clients after the six months’ absence, which would allow a new Ticor salesman sufficient opportunity to establish a fledgling relationship with Cohen’s clients at Ticor.

Appellant maintains that *Maltby* can be distinguished, because in that case the employees were paid their base salary during the restricted period, while Cohen will receive nothing during his six-month hiatus. The significance of the salary paid in *Maltby* was that it helped alleviate the policy concern that non-compete provisions prevent a person from earning a livelihood. Here, by the same token, part of Cohen’s $600,000 per year salary was in exchange for his promise not to compete for six months after termination, and since the employer had given Cohen sufficient funds to sustain him for six months, the public policy concern regarding impairment of earning a livelihood was assuaged. * * *

***

As stated in *Service Sys. Corp. v. Harris*, 41 A.D.2d 20, 23-24, 341 N.Y.S.2d 702 (4th Dep’t 1973), “an employer has sufficient interest in retaining present customers to support an employee covenant where the employee’s relationship with the customers is such that there is a substantial risk that the employee may be able to divert all or part of the business.” In the present case this risk is clearly evidenced by the fact that in 1997 another employee, Neil Clarke, left for TitleServ and took 75 percent of his clients with him. And, this is further demonstrated by appellant’s successful solicitation of a law firm to follow him to TitleServ. * * *

***

**Conclusion**

For the reasons stated, therefore, the judgment entered in district court enjoining defendant under the non-competition contract is affirmed.

**QUESTIONS FOR DISCUSSION FOR CASE 3.4**

1. What role does precedent play in this decision?
2. What factors led this court to conclude that the noncompete agreement was enforceable?
3. How does the court balance the interests of the employee and employer in deciding whether to issue an injunction?

### 3.5 Protection of Unsolicited Ideas


Bonnie Vent, a citizen of California, filed this action against Mars Snackfood US, LLC, and Mars, Inc. (collectively, “Mars”), corporations that are considered for purposes of diversity jurisdiction citizens of New Jersey and Virginia. * * *

* * * Mars filed a motion to dismiss .... In her opposition to Mars’s motion to dismiss, Ms. Vent ... agrees with Mars’s assertion that New Jersey law controls the ... misappropriation of idea claim.

* * *

For the following reasons, the Court grants Mars’s motion to dismiss.

**Background**

Ms. Vent is a freelance entertainment broker, focusing particularly on actors and actresses from classic television programs. As relevant here, Ms. Vent represented various individuals who starred in the 1960s television program “The Addams Family,” including the actors and actress who played Cousin It (Felix Silla), Pugsley (Ken Weatherwax), and Wednesday (Lisa Loring).
In August 2006, Ms. Vent was preparing to help launch the release of the Addams Family DVD Volume 1. She called Claire O'Donnell, a senior marketing buyer for Mars based in New Jersey. During this telephone call, Ms. Vent claims that she “pitched a specific, novel, and concrete idea for a cross-promotion between Addams Family characters and M&M’s candies [sic] for Halloween.” According to the Amended Complaint, “[t]he idea conveyed by [Ms. Vent] to Ms. O’Donnell specifically mentioned the use of animated M&M’s characters [sic] with Addams Family characters for a cross-promotion of the two products (M&M’s candies and Addams Family DVD).” In this conversation, Ms. Vent also told O’Donnell that her clients—Loring, Weatherwax, and Silla—were available to appear in the advertisement. * * *

The Amended Complaint alleges that the idea was shared in confidence, although it does not describe any particular statements or actions substantiating this assertion. It also alleges that “a confidential or fiduciary relationship existed between” Ms. Vent and O’Donnell because “the parties did not deal on equal terms.” Further, the Amended Complaint alleges that Ms. Vent “trusted and relied on Ms. O’Donnell … to protect her interests” in the marketing idea.

The Amended Complaint states that Ms. Vent’s idea was “novel and concrete.” The idea allegedly was not in use in the entertainment or advertising industries at the time, “showed genuine novelty and invention [] and was not merely a clever or useful adaptation of existing knowledge; was “definite and well-developed (i.e., the specific use of M&M’s animated characters with Addams Family characters);” was “taken [from] existing material [and] common sources and combined and arranged them into a new form”; and was given “a unique application in a different manner and for a different purpose than what previously existed.” The Amended Complaint concedes, however, that, prior to Ms. Vent’s telephone conversation with O’Donnell, Mars had promoted its M&M’s products with movie releases and, particularly, with DVDs.

Shortly after this initial telephone conversation, O’Donnell informed Ms. Vent that Mars had declined to use her idea for a cross-promotion between Addams Family characters and M&M’s candies. About eight months after Mars’s refusal, however, Ms. Vent claims that Mars produced several advertisements featuring her idea of cross-promoting Addams Family characters with M&M’s candies. These advertisements consisted of M&M’s chocolate candy animated characters transmogrified to resemble the cast of television program and the Addams Family theme song (including the finger snaps).

* * *

II

Discussion

* * *

B. New Jersey Law Governing Misappropriation of Idea

Under New Jersey law, a party may incur liability for the misappropriation of an idea if “[1] the idea was novel; (2) it was made in confidence [to the defendant]; and (3) it was adopted and made use of [by the defendant in connection with his own activities].”

Although novelty has not been clearly defined under New Jersey law, courts have set forth some general guidelines that are helpful in analyzing this fluid concept. An idea is not novel, for example, if “it was merely ‘a different application of a long-established principle []’ or if ‘a competitive product similar to [the plaintiff’s] was [already] on the market.’” “[I]nnovation, originality, or invention” are probative of an idea’s novelty. An idea that is an “adaptation of an existing idea or [that] embodies elements long in use” may be novel if “the adaptation or combination would lead to a significantly new and useful result.” Nevertheless, “[a]n idea lacks novelty if it is merely a clever or helpful adaptation of existing knowledge, or it is no more than a variation on a basic theme.” Given these general principles, … the following factors are relevant to the novelty inquiry:

(1) the idea’s specificity or generality (is it a generic concept or one of specific application?), (2) the idea’s commonality (how many people know of this idea?), (3) the idea’s originality (how different is this idea from generally known ideas?), (4) the idea’s commercial viability (how widespread is the idea’s use in the industry?), (5) the idea’s obviousness (was the idea an obvious adaptation or application of an idea already in the domain of public knowledge?), and (6) the idea’s secrecy (did an otherwise novel idea lose its novelty status because of inadequate steps taken to maintain the idea’s secrecy?).

* * *

In addition to the novelty requirement, a plaintiff asserting a misappropriation of idea claim must show
that he or she shared the idea in confidence. “An idea … is accorded no protection in the law,” New Jersey courts have held, “unless it is acquired and used in such circumstances that the law will imply a contrac-
tual or fiduciary relationship between the parties.” New Jersey law defines a fiduciary relationship as one in which “one party places trust and confidence in another who is in a dominant or superior position.”

1.
Ms. Vent’s misappropriation of idea claim must be dismissed on the ground that her idea lacks novelty. Even accepting as true the factual allegations contained in Ms. Vent’s Amended Complaint and drawing all inferences in her favor, Ms. Vent’s idea was merely “a variation on a basic theme.”

As a preliminary matter, the Court notes Ms. Vent’s idea was general and undeveloped. She did not draft any examples or sketches of the advertisement, did not specify the medium that the advertisement would take, and did not write a script. This lack of develop-
ment assumes particular relevance given the prior cross-promotion advertisements produced by Mars. Although Ms. Vent’s specified using animated M&M’s candies and members of the Addams Family cast in cross-promoting the Addams Family DVD and Mars’s products, her Amended Complaint concedes that, prior to Ms. Vent’s telephone call to O’Donnell, Mars had promoted its M&M’s products with movie releases and, particularly, with DVDs. Indeed, in 2004, Mars produced and televised a cross-promotion of Shrek 2 and M&M’s, featuring animated M&M’s candies and members of the Shrek 2 cast. Accordingly, Ms. Vent’s idea also was not “different … from generally known ideas,” but rather “an obvious adaptation … of an idea already in the domain of public knowledge.” Thus, Ms. Vent’s general and undeveloped idea, as pitched to Mars, does not contain any novel aspects—unique visual presentation or particularly witty dialogue, for example—that would set it apart from already extant cross-promotion ideas. Ms. Vent’s idea involved mini-
mum creativity—she merely took an existing basic theme (cross-promoting DVDs and M&M’s) and substituted her own product without adding any unique or creative details or elements.

Ms. Vent submits that she has stated a plausible claim of novelty because the DVD that she was seeking to promote—the Addams Family—was a classic television program, whereas Mars’s previous cross-promotion was a relatively recent animated movie. This is insufficient. Under New Jersey law, “[a]n idea will not satisfy the novelty requirement if it is not significantly different from, or is an obvious adaptation or combination of ideas in the public domain.”

* * * Ms. Vent’s idea was generic, commonly known, commercially available, and obvious.

* * *

Consequently, Ms. Vent’s misappropriation claim must be dismissed on the issue of novelty.

2.
Independently, Ms. Vent’s claim also must be dismissed because her Amended Complaint contains no allegations that raise a plausible claim that her idea was shared in confidence. The Amended Complaint appears to assert two bases for establishing the confidence element. First, it states—summarily and without any substantiating factual allegations—that Ms. Vent “presented her idea to Defendants in confidence.” Second, the Amended Com-
plaint asserts that “a confidential or fiduciary relationship existed between” Ms. Vent and O’Donnell because “the parties did not deal on equal terms.”

Neither of these assertions is sufficient to survive Mars’s motion to dismiss. Although Ms. Vent claims that she presented her idea to O’Donnell in confidence, the Amended Complaint does not assert that she told O’Donnell that the idea was being shared in confidence or that she otherwise indicated to Mars the confidential nature of her idea. Ms. Vent does not allege that she requested a confidentiality agreement or even that she limited the dissemination of her idea. * * *

Furthermore, Ms. Vent’s claim that she and O’Don-
nell had a fiduciary relationship is unmeritorious. Ms. Vent, an entertainment broker and a business person, cold-called O’Donnell to pitch an arms-length advertisement transaction. This was not a “special relationship based on trust and confidence.” Ms. Vent and O’Donnell did not have a long-standing business relationship, O’Donnell did not agree to serve as a fidu-
 ciary, nor did O’Donnell have any special knowledge or skills or occupy a superior position.

Accordingly, Ms. Vent’s Amended Complaint fails to plead a plausible claim that she divulged her idea to O’Donnell in confidence. Therefore, Mars’s motion to dismiss is granted on this basis as well.
Conclusion
For the foregoing reasons, the Court grants Mars’s motion to dismiss. * * *

QUESTIONS FOR DISCUSSION FOR CASE 3.5
1. Why is this state law claim being heard in federal court?
2. Under New Jersey law, misappropriation of an idea requires the plaintiff to show three elements. Which element or elements were at issue here? Why?
3. What steps could Vent have taken to protect her idea initially?

DISCUSSION QUESTIONS
1. Stutz Motor Car of America, Inc., an automotive manufacturer, received a patent in 1986 for a “shock absorbing air bladder” for use in footwear. However, Stutz never manufactured a shoe with this innovation. In 1989, Reebok began producing the PUMP, a very successful line of athletic shoes with an air bladder different in design but similar in concept to Stutz’s invention. Because Reebok’s design was not sufficiently similar to Stutz’s to constitute patent infringement, Stutz sued instead for trade secret misappropriation. Should Stutz prevail on its misappropriation claim? Why, or why not?
2. Palm Beach Blood Bank, a nonprofit organization, hired several employees who used to work for American Red Cross, another nonprofit organization. One of the employees took Red Cross’s blood donor list to Palm Beach, and Palm Beach used the list to recruit donors. Many of the Red Cross donors advertised that they were Red Cross donors, and the Red Cross posted the donor list on a computer bulletin board. How should the court rule on Red Cross’s claim of trade secret misappropriation? Are there any policy arguments against enjoining the use of the donor list by Palm Beach Blood Bank?
3. Christopher M. developed a secret recipe for fudge. His fudge was very popular, and he closely guarded his secret by keeping only one copy of his recipe and storing it at a location outside his factory. Additionally, he divided up the manufacturing process and allowed his employees to see only the part of the manufacturing process in which they were engaged. However, one employee, Hennon, gained Christopher M.’s confidence and through the course of his year-long employment was able to see most of the manufacturing process. Hennon also learned the ingredients of the fudge recipe because he had the sensitive task of typing the ingredients into a computer system. Hennon left Christopher M.’s factory, taking several confidential computer disks and documents. He then produced his own line of fudge with similar, if not identical, properties. Hennon had not signed a confidentiality agreement. Christopher M. sued for trade secret misappropriation. Should he win? Why, or why not?
4. Northeast Coating Technologies, Inc., (NCT) is a start-up corporation in the business of “vacuum coating” metals. To lure potential investors, NCT created a prospectus that included its business plan, including its orders from suppliers. This prospectus was widely distributed and contained a disclaimer that the information in the prospectus was confidential. Several copies of the prospectus ended up in the hands of potential competitors of NCT. The competitors used the business plan in NCT’s prospectus to plan strategies to prevent NCT from successfully competing with them. If NCT sues for misappropriation of the “trade secret” material in the prospectus, should it win? Why, or why not?
5. I Can’t Believe It’s Yogurt (ICBIY), a frozen yogurt company, required potential franchise owners to attend “Yogurt University”—a training program designed to teach owners how to run an ICBIY store. In addition to teaching potential owners how to mix and freeze yogurt, Yogurt University also teaches potential owners how to structure the store. ICBIY claimed that particular floor tile patterns move customers through the store more efficiently. In addition, ICBIY used certain paint color schemes, logos, menu boards, windows, and common business marketing practices to distinguish an ICBIY store and improve business results. ICBIY considered these store designs and practices to be trade secrets. However, ICBIY did not require potential owners to sign a confidentiality agreement until the individual signed a franchise agreement. Gunn attended Yogurt University, became a franchisee, and set up his store. Irregular yogurt
Cybex, a division of Lumex, is the largest manufacturer of exercise and weight-training equipment. Pursuant to its normal business practices, Cybex required its employees to sign a covenant not to divulge trade secrets. The covenant provided in part:

[Employee] agrees not to divulge any trade secrets of the Corporation. Trade secrets means any knowledge or information concerning any aspect of the business of the Corporation which could, if divulged to a direct or indirect competitor, adversely affect the business of the Corporation, its prospects or competitive position. Seller shall not use for his own benefit any trade secret of the Corporation in any manner whatsoever.

Muckenfuss signed the agreement when he was hired. He also signed a covenant not to compete for one year after leaving the company. After several years of employment, Muckenfuss left CCEC. He did not work in the chemical industry for over one year, but eventually he went to work for one of CCEC’s direct competitors, where he sold products to some of CCEC’s customers that were essentially the same products that CCEC sells. CCEC sued Muckenfuss for trade secret misappropriation. Should CCEC win? Why, or why not?

Cybex, a division of Lumex, is the largest manufacturer of exercise and weight-training equipment. Pursuant to its normal business practices, Cybex required its employees to sign a noncompete agreement. The agreement provided that Highsmith was not to work for a competitor for six months after leaving Cybex. However, the agreement allowed Highsmith to work for a competitor whose business was “diversified,” provided Highsmith worked on product lines that were not in direct competition with Cybex products. The agreement also provided for six months of compensation and employee benefits in the event that Highsmith left Cybex and the terms of the restrictive covenant prevented him from obtaining another job during the noncompete period.

Highsmith left Cybex and went to work for Life Fitness, a competitor, within a matter of days. Although Life Fitness sent several letters to Cybex, assuring Cybex that it had not and would not induce Highsmith to violate his duty of confidentiality, Cybex filed suit for a preliminary injunction prohibiting Highsmith from working for Cybex for a period of six months. Should the court grant the injunction? Why, or why not?

Phillips manufactures “single-pole” tree stands—a device that allows hunters to sit perched in a tree to await deer or other game. A group of investors expressed interest in buying the venture, and purchase negotiations began. In the course of the process, Phillips sent the investors information about his company, including prospectuses and videotapes. Phillips also gave the investors a tour of the plant and showed them firsthand the manufacturing process. Although Phillips had never patented his tree stand, he knew that without knowledge of the manufacturing process, building the stand would be cost-prohibitive. During the course of the negotiations, the investors bought several samples of the stand. Although Phillips wanted to sell the company and tried to make several concessions in the purchase price, the investors were unable to obtain financing, and the deal fell through. Sometime later, a company founded by the investors began to manufacture nearly identical “single-pole” tree stands. Phillips sued for trade secret misappropriation, but the investors claimed that they had lawfully reverse-engineered the tree stand. Which party should win and why? What type of remedy, if any, should the court award?

In 1983, J & K Ventures, Inc., signed a 10-year franchise agreement with American Speedy Printing Centers with plans to establish a printing center in Tampa, Florida. In addition, J & K Ventures signed a nondisclosure agreement that also contained a covenant not to compete within a 10-mile radius of the franchise. J & K Ventures operated the Tampa printing center until July 1993, as agreed in the franchise agreement. Toward the end of the 10 years, however, the relationship between the two companies deteriorated, so J & K Ventures decided to allow the franchise agreement to expire without renewal. No other Speedy franchises operated within the 10-mile radius agreed to under the franchise agreement. Following the expiration of the agreement, J & K Ventures maintained a printing center at the same location and telephone number under the name Express Printing Center. Express Printing Center
expanded its basis of operations and offered more expanded services under the new name.

Speedy brought suit for violation of the noncompetition covenants. J & K Ventures asserted that Florida Statute Section 542.33(2)(b) makes the noncompete agreement void. Section 542.33(2)(b) states: “[Licensee] may agree with the licensor to refrain from carrying on or engaging in a similar business and from soliciting old customers within a reasonable limited time and area, so long as the licensor … continues to carry on a like business therein.” How should the court rule on Speedy’s claim, and why?

10. Communication Technical Systems, Inc., (CTS) began providing computer programming services for Gateway 2000, Inc., (Gateway), in July 1994. Rickey Densmore, a programmer for CTS, worked on the Gateway account in Chicago for two weeks before transferring to Gateway’s South Dakota production site. In September, Gateway entered into an agreement with CTS called the “Agreement Not to Recruit,” in which Gateway promised not to hire, solicit, or recruit any CTS employee while CTS was working on the Gateway account, nor for a one-year period after CTS ceased working on the account.

In December, Densmore expressed his dissatisfaction with CTS to a Gateway employee, who suggested that Densmore talk to Gateway’s legal counsel about possibly being hired by Gateway. Densmore talked to Gateway counsel, but they refused to discuss the possibility, citing the “Agreement Not to Recruit.” On December 15, Gateway gave CTS proper 30-day notice of its intent to terminate CTS’s services. On January 20, 1995, Densmore resigned from CTS to begin his own consulting firm, Corinium Consulting, Inc. Densmore contacted Gateway, stating that he was now free to program for Gateway and was free of any restrictions imposed by the “Agreement Not to Recruit.” Three days later, Gateway hired Densmore’s firm for a five-month programming job.

Section 53-9-8 of the South Dakota statutes states: “Every contract restraining exercise of a lawful profession, trade, or business is void to that extent ….” Section 53-9-11 provides an important exception, however, that allows noncompete covenants. CTS brought this suit against Densmore for breach of the “Agreement Not to Recruit.” How should the court rule on CTS’s claim, and why?

11. Donald Ray Dawson was an initial 49 percent investor and promoter in Temps Plus, Inc., a Blytheville, Arkansas, temporary-employment agency. In May 1996, Temps Plus bought all of Dawson’s 49 percent interest in the corporation for $95,000. As part of the transaction, Dawson agreed “that for a period of five (5) years from the execution of this Agreement, he will not directly or indirectly, whether as an owner, partner, or employee, compete with Temps Plus, Inc., within a radius of seventy (70) miles from Blytheville, Arkansas.” Dawson later did not recall reading that portion of the agreement.

Approximately one year later, Dawson, along with his brother, hired two employees away from Temps Plus in anticipation of creating the Dawson Employment Agency. Two weeks later, Dawson and his brother formed their own employment agency corporation, Steve Dawson Employment Services, Inc. (SDES), in Blytheville. In April, Temps Plus sued SDES for breach of the noncompete agreement. How should the court rule, and why?

12. In the mid-1980s, Deere & Co. became interested in installing a draft sensor device on its tractors, which would regulate the depth and mechanical forces on the plow. In June 1986, Deere entered an agreement with Revere Transducers to install the “Gozinta” strain gauge on Deere tractors to serve as draft sensor devices. Revere and Deere worked jointly on the project, taking four years to develop the product. Revere specially hired two men, engineer Francis Delfino and product manager Greg Eckart, in late summer 1986 to work on the “Gozinta” project. Both signed nondisclosure agreements, in which they agreed not to disclose any inventions or discoveries either during their employment or for a one-year period after their employment. No other formal agreements existed between Revere and the two men who, in all other respects, were at-will employees.

The “Gozinta” turned out to be a failure. Deere believed the defect resulted from Revere’s decision to use poor-quality knurls without consulting Deere. Due to significant downsizing, Delfino and Eckart were told that they would be released in 1989. At about the same time, Eckart was independently studying the viability of a sensor that could be welded to the plow instead of pressed—an idea previously rejected by Revere. Delfino and Eckart spoke with Deere about the possibility of starting a new company to supply Deere with the welded sensors, and Deere stressed that, if they proceeded, it was vital that they took no documents, models, or engineering drawings from Revere.

In March 1989, Delfino and Eckart started their own company—D & E Sensor Manufacturing, Inc. D & E formally proposed its idea for the new
sensor—the “weldzinta”—to Deere and received a purchase order from Deere for $172,900. Revere sued Deere for tortious interference of contract. Deere argued that the suit should be dismissed on the grounds that the nondisclosure contract was not enforceable. Under Iowa law, restrictive covenants are evaluated under a three-pronged test: (1) is the restriction reasonably necessary for the protection of the employer’s business?; (2) is the restriction unreasonably restrictive of the employee’s rights?; and (3) is the restriction prejudicial to the public interest? Is the NDA enforceable? Why, or why not?

13. Mark Brown, Deborah Christopher, and David Graben (the “defendants”) were employees of Allied Supply Company, Inc., an industrial supply company. All three held managerial positions; Brown and Christopher were also corporate officers. On January 19, 1988, the three individuals resigned and formed their own industrial supply company.

Allied filed suit against them, alleging that the defendants had misappropriated customer and vendor lists before they left. Allied contended that those lists were trade secrets, and that, by misappropriating the lists, the defendants had violated both the common law and the Alabama Trade Secrets Act.

Evidence at trial showed “at least 10 Allied employees had free access to the lists. In addition, the lists were not marked ‘confidential’; the lists were taken home by employees; multiple copies of each list existed; and the information on the lists was contained in the receptionist’s Rolodex file.” How should the court rule on this claim?

14. RKR Dance Studios hired Jessica Makowski as an at-will employee. At that time, Makowski signed a noncompete agreement. In 2006, Makowski signed a new noncompete, allegedly in consideration for new training programs provided by RKR. The 2006 agreement provided that Makowski would not, for a period of two years after leaving RKR’s employ, work as a dance instructor or provide dance lessons in the employ of a competitor within 15 miles or within 10 miles of certain dance studios. As a result, the covenant appeared to include all dance studios nationally. In 2007, Makowski left the employ of RKR and went to work for a competitor. When RKR attempted to enforce the noncompete clause, Makowski argued that it was unenforceable. How should the court rule on this claim?

15. Podiatrist Kenneth Krueger was employed by Central Indiana Podiatry, PC (CIP) from 1996 to 2005, under a series of employment agreements that were renewed every year or two. Each agreement restricted Krueger, for a period of two years after leaving CIP’s employ, from revealing the names of patients, contacting patients, or soliciting CIP employees. The agreements also prohibited Krueger from practicing podiatry for two years within fourteen listed central Indiana counties, and “any other county where CIP maintained an office” during the time of the agreements, or any county adjacent thereto. CIP had offices in two unlisted counties, and another 27 counties were adjacent to these sixteen, making a total of 43 counties in which Krueger’s activities were restricted. (Essentially the agreement covered the central half of Indiana.) In the last two years of his employ with CIP, Krueger practiced in three counties—Marion, Tippecanoe, and Howard.

Krueger was terminated by CIP in 2005, and went to work for Meridian Health Group, PC two months later. Meridian was located in Hamilton county, which was one of the counties listed in Krueger’s noncompete agreement and which was immediately north of Marion County. Krueger provided a copy of the CIP patient list to Meridian and mailed a letter to CIP patients announcing his new employment with Meridian in a location “approximately 10 minutes” from Krueger’s previous office. When Meridian sought an injunction against Krueger, Krueger argued that the noncompete agreement was not reasonable in its terms.

Was the noncompete agreement reasonable in its time limits? Was it reasonable in its geographic scope? If the court finds that any of the terms were unreasonable, what remedies can the court offer?