

Analysis & Perspective

Intellectual Property

The mobility of the government contractor workforce presents new challenges for employers and places a premium on finding talented candidates for employment who possess the requisite knowledge of the industry, educational background, and experience. In the government contracting industry, ideal candidates are often found among the ranks of a competitor or among those recently released from a competitor's employ. Such candidates can hit the ground running without the need for significant training, and their familiarity with the government customer's preferences and procedures makes them appealing.

Losing such employees to a competitor can expose a company's trade secrets and confidential business information to the risk of disclosure. Conversely, hiring such an individual from a competitor can expose a company to the risk of litigation if the candidate, while employed by his previous employer, had access to and worked with trade secrets and confidential business information, such as customer lists, bidding practices, prices, financial information, business plans and strategies, and other proprietary information, or if the candidate is subject to a confidentiality agreement, a non-disclosure agreement (NDA), or a non-competition agreement with his previous employer.

Trade Secrets: Protecting Yours, and Respecting Those of Your Competitors

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The economic value of a company's trade secrets may be the company's lifeblood or, at the very least, its competitive advantage. Accordingly, safeguarding trade secrets will be a significant and consistent undertaking for any successful business.

Equally important is the company's duty to respect its competitors' trade secrets, especially when hiring new employees. This duty is not only a matter of business ethics, but also a necessity to protect the company from

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potential civil liability to a competitor for misappropriation of the competitor's trade secrets¹ and for other business torts.

Protection of Trade Secrets in Hostile Times

A trade secret, by definition, is information that:

(1) derives independent economic value, actual or potential, from not being generally known or readily ascertainable by proper means by 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.²

¹ Damages for misappropriation of trade secrets are prescribed by the uniform trade secrets acts of Maryland, Virginia, and D.C. See Md. Code, Com. Law § 11-1203; Va. Code § 59.1-338; D.C. Code § 26-404.

² See the Uniform Trade Secrets Act (UTSA), § 1(4) adopted by the National Conference of Commissioners on Uniform State Law in 1979, and amended in 1985. Forty-five states—including Maryland and Virginia—and the District of Columbia have enacted some version of the UTSA. The Maryland, Virginia, and D.C. definitions of "trade secret" are iden-

In the government contracting industry, ideal candidates are often found among the ranks of a competitor. . . . Such candidates can hit the ground running without the need for significant training. . . . Losing such employees to a competitor can expose a company's trade secrets and confidential business information to the risk of disclosure. Conversely, hiring such an individual from a competitor can expose a company to the risk of litigation if the candidate . . . had access to and worked with trade secrets and confidential business information.

The protection of a company's trade secrets involves not only active conduct to safeguard those secrets, but also utilization of the remedy of injunctive relief when the company discovers that its trade secrets have actually been misappropriated or are threatened with misappropriation.³ The protection of such material has great importance in the government contracting arena where procurement and award opportunities can be affected. For example, the Government Accountability Office (GAO) recently upheld the General Services Administration's (GSA's) disqualification of a company from further participation under a request for quotation when an employee from the protesting company improperly obtained transcripts of two competitors' oral presentations to GSA.⁴ The improperly obtained transcripts contained the competitors' proposal strategies and GSA's concerns regarding those strategies. Notwithstanding the termination of the responsible employee, the protesting company's manager involved in the preparation of the ultimate proposal to GSA had reviewed the competitors' proposal information and marked certain aspects of interest.⁵ GAO based its ruling on the Procurement Integrity Act, which prohibits anyone from "knowingly obtain[ing] contractor bid or proposal information or source selection information before the award" of a "contract to which the informa-

tial to that of the UTSA. See Md. Code, Com. Law § 11-2101(e); Va. Code § 59.1-336; D.C. Code § 36-401(4).

³ Unlike a suit for damages for misappropriation of trade secrets, which may provide monetary recovery but not protection of the trade secrets, injunctive relief prevents the misappropriated trade secrets from either being disclosed to, or used by, a competitor. Injunctive relief for the actual or threatened misappropriation of trade secrets, prescribed by the uniform trade secrets acts of Maryland, Virginia, and D.C., is discussed below.

⁴ *Matter of Computer Technology Associates Inc.*, 2001 WL 1513195 at *4 (Nov. 7, 2001).

⁵ See *id.*

tion relates."⁶ According to GAO, "wherever an offeror has improperly obtained proprietary proposal information during the course of procurement, the integrity of the procurement is at risk, and an agency's decision to disqualify the firm is generally reasonable, absent unusual circumstances."⁷

Active Conduct to Safeguard Trade Secrets

Suppose several of your company's key employees suddenly resign, and they leave with your company's proposal strategies in hand or with some other part of your confidential business information and trade secrets to form a new company to compete against your company on its current and proposed professional services contracts. Or, suppose your company discovers that the incompetent employee who was fired last month took a going away present with him—your software source code, your customer lists, and your pricing data on your largest contract—which he collected in one tidy spot in an e-mail, a CD, or flash drive. It becomes clear that he is interviewing for a new job with your toughest competitor, the one your company has always suspected of engaging in unethical conduct. Your company finally realizes, too late, that your competitors are actively trying to find out exactly what makes your company so successful, and they are willing to use any means to gain access to the information, customer lists, plans, processes, and ideas that make your company unique and successful in the marketplace.

Sadly, you also realize that your company has failed to take the necessary internal steps to prevent such scenarios from occurring. Or, worse, your company thought it had taken the necessary steps to protect its trade secrets by having your employees sign confidentiality agreements and restrictive covenants, but because your company never documented its trade secrets thoroughly and/or never developed internal procedures to protect its trade secrets—by performing a trade secret audit and developing internal management procedures to safeguard trade secrets—you find that they are not protected and the courts will not help enforce them.⁸

The foregoing worst-case scenarios are not inevitable. If your company has developed strong procedures to protect its trade secrets and has been diligent in the implementation and enforcement of those procedures, existing trade secret enforcement law can help protect you when your employees or others with whom you do business decide to walk out the door with one of

⁶ See *id.* at *3 (citing 41 U.S.C. § 423(b) and FAR § 3.104-4(b)).

⁷ See *id.* at *3 (citing *Compliance Corp. v. United States*, 22 Cl. Ct. 193 (1990), *aff'd*, 960 F.2d 157 (Fed. Cir. 1992) (disqualification of offeror reasonable where based on its improperly obtaining or attempting to obtain competitor's proprietary information), and *NKF Eng'g v. United States*, 805 F.2d 372 (Fed. Cir. 1986) (disqualification not unreasonable where there was "mere possibility" that offeror did not obtain an advantage from source selection information)).

⁸ See, e.g., *Peat Inc. v. Vanguard Research Inc.*, 378 F.3d 1154, 1163, 1165 (11th Cir. 2004) (reversing jury verdict in favor of plaintiff on trade secret claim where the plaintiff at trial "provided no clear answer as to what trade secrets [it] had, if any," where the plaintiff's post hoc created "list of everything that . . . [it] felt constituted proprietary and technical information that included trade secrets" was inadmissible hearsay, and where the plaintiff acknowledged that, prior to suing the defendant, it "did not have a list or inventory of its trade secrets").

your company's most valuable assets—its confidential business information and trade secrets. However, you must be prepared to avail yourself of the protections the law affords, and also must take the necessary steps within your company to protect confidential business information and trade secrets. If you have not done so in the past, now is the time to start.

Secrecy: The Crucial Characteristic of a Trade Secret

Secrecy is the crucial characteristic of a trade secret. But, as the Supreme Court has explained, some novelty usually is required to constitute a trade secret "merely because that which does not possess novelty is usually known; secrecy, in the context of trade secrets, thus implies at least minimal novelty."⁹

A trade secret can be any idea, process, compilation of information, formula, pattern, physical device, or some combination thereof, that affords your company a competitive advantage in the marketplace and is handled within your company in a way that can reasonably be expected to prevent the public at large as well as your competitors from learning about it by lawful means.¹⁰ In addition to novelty and secrecy, however, your efforts and procedures to keep trade secrets confidential also help identify and define your trade secret material. Put another way, the law may refuse to acknowledge your trade information as a trade secret if you have not first identified and protected it as such.¹¹

Proprietary Business Information

While trade secrets are narrowly defined by statute, "proprietary" information is more broadly defined as property "belonging or pertaining to" a party who owns or who "has the legal right or exclusive title to anything, whether in possession or not."¹² Therefore, whether a company's information or property is considered proprietary often will depend on whether the entity has ownership, title, or possession of the property and whether the company "exercises dominion" over or manages or controls the property.¹³ Such proprietary information (e.g., customer lists, customer preference lists, specialized reporting, bookkeeping procedures, data regarding developments, marketing plans, and techniques), likely represent the largest part of your confidential business materials, but deserves and is afforded legal protection if the necessary steps are taken to protect it from disclosure.¹⁴

⁹ *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 476 (1974); see *Microstrategy Inc. v. Li*, 268 Va. 249, 262, 601 S.E.2d 580, 588 (2004).

¹⁰ *Kewanee Oil*, 416 U.S. at 481-82; see *Microstrategy*, 268 Va. at 262, 601 S.E.2d at 588.

¹¹ See, e.g., *Peat*, 378 F.3d at 1163, 1165.

¹² See *Ferguson v. Author*, 117 U.S. 482, 487 (1886).

¹³ See *Green v. Lewis*, 221 Va. 547, 555, 272 S.E.2d 181, 186 (1980); cf. *United Rentals Inc. v. Davison*, No. 03-C-02-007061, 2002 WL 31994250, at *6 (Md.Cir.Ct. July 23, 2002) (finding that information sought to be protected by a company was not proprietary, as it was "information that is available to the public and competitors with little effort.")

¹⁴ See *Brenco Enterprises Inc. v. Takeout Taxi Franchising Systems Inc.*, No. 177164, 2003 WL 21659422 (Va. Cir. Ct. May 2, 2003); *United Rentals Inc. v. Davison*, No. 03-C-02-007061, 2002 WL 31994250 (Md.Cir.Ct. July 23, 2002) (applying blue- penciling of an NDA to protect an employers interests in its proprietary information, including: customer files, open con-

Identify Trade Secrets Within Your Company

You cannot protect your company's trade secrets if you have not identified them in advance and developed strong procedures to protect them.

Trade secrets must be inventoried and identified, typically through a comprehensive trade secret review or audit within your company designed to identify, locate, and develop procedures to secure your trade secrets and other confidential business information. Such a review can be done independently, or as part of a larger intellectual property inventory. The review should be an ongoing process, done annually or more frequently as needed, in recognition of the fact that most companies' trade secret material is constantly changing and new trade secret material is continually being generated. Such audits are best done with the assistance of counsel so that the process and history of the audit, and its results, may be protected from disclosure or later discovery in litigation by the attorney-client privilege and/or attorney work-product doctrine.

Vague descriptions may not be enough to protect you if the description does not adequately identify the information your company considers to be worthy of trade secret protection.

Your company's employee manual may contain a policy on trade secrets, with a general but often vague definition of "confidential and proprietary information." Such a policy, although common, may give a false sense of security. Vague descriptions may not be enough to protect you if the description does not adequately identify the information your company considers to be worthy of trade secret protection. And, such descriptions typically are not updated when your trade secret and business confidential information changes over time.

Develop Procedures to Protect Trade Secrets Within Your Company

Once you have identified your trade secrets via comprehensive review, audit, or otherwise, it is essential that internal company procedures be developed to limit access to such information and protect against its disclosure. Here are essential factors to consider in developing such procedures.

Limit Access to Trade Secret Information Within the Company

Only key employees should have access to your most sensitive information, and only on a "need-to-know" basis. If the number of employees who have access to what you consider to be trade secret information is large and not defined by some logical need to have such information, that will make it difficult for you to later demonstrate that the information you sought to protect was, in fact, a trade secret. If you want the courts to

tract reports, sales by account customer reports, and financial statements).

help you enforce your trade secrets, it is very important to limit access, and to develop a procedure to track the access which employees have, so that your company can later demonstrate that it took all reasonable steps necessary to prevent disclosure of trade secrets by employees.

Take Steps to Keep Your Information Secret from Outsiders

Consider the ultimate example of a trade secret, the formula for Coca-Cola. Consider also that if Coca-Cola had sought only patent protection for its formula, that protection would have expired many years ago.¹⁵ Protecting the formula by defining it as a trade secret was a smart move by Coca-Cola, and that protection has no expiration date so long as the secrecy is maintained.

While not every trade secret requires the same level of protection as the formula for Coca-Cola, note that in general it is far better to err on the side of too much secrecy and protection from outsiders rather than not enough.

Establish Procedures for Handling Confidential Information And Train Employees in Those Procedures

The protection of trade secrets is not a discrete task. Rather, it is an ongoing process that includes educating and training employees on the company's procedures for handling trade secret material. The training and review process also helps remind employees that they have a fiduciary duty to handle trade secrets with care and utmost confidentiality.

For both employees and outside consultants, you should consider implementing management initiatives and procedures such as the following:

- Create and consistently display and enforce security guidelines and instructions concerning the handling and use of trade secrets by employees or consultants.
- Disclose and make trade secrets accessible to employees or consultants only on a need-to-know basis.
- Appropriately label trade secret material.
- Segregate trade secret material from other non-protected information, including using password-protected access control where necessary.
- To avoid an unwitting disclosure of trade secrets, carefully dispose of the company's trash and monitor the implementation of document destruction policies. Unfortunately, "dumpster diving" to steal trade secrets is not unknown.
- Immediately remove access to your trade secrets from anyone who leaves your employment or ceases work as your consultant.

Having such procedures in place will greatly strengthen your position if you later need to protect your trade secrets against misappropriation.

Trade Secret Protection With Agreements: NDAs and Covenants Not to Compete

Most professional service companies today use a written confidentiality and NDA with their employees to maintain the confidentiality of the company's confidential business information and trade secrets during and

after their employment. Such agreements are usually signed when the employee is hired, and compliance with the NDA should be emphasized to the employee repeatedly and at all appropriate times—i.e., at hiring, during employment, at the time employment ends, and again shortly after termination of employment.

NDAs also should be used with consultants and others outside the company who have access to portions of your confidential business information so that you have their written assurance that they agree to keep your trade secrets confidential and, in addition, that they will make no ownership claim as to any work product or property developed during their work for your company. The owner of a trade secret does not have to maintain "absolute secrecy" and will not lose protection of the law by disclosing the secret to outsiders, such as consultants, subcontractors, or licensees, provided that the disclosure is made in express or implied confidence and proper methods to protect the trade secrets are in place.¹⁶

Non-competition agreements, also known as covenants not to compete, also should be used with key employees who have access to your trade secrets. Courts will enforce employee non-competition agreements with your company for some defined period of time after the employee's employment ends, but only if they are properly drafted—i.e., if they are reasonable in geographic scope, duration of time in force, and scope of activities restricted.¹⁷

Even if you do not have NDAs or non-competition agreements in place, or you suspect that your agreements may not be enforceable for some reason, do not despair. If no agreement is in place, a new one can be created. If an agreement is in place which you believe is inadequate, that agreement can and should be revised to protect your trade secrets. New or revised confidentiality, NDA, and non-competition agreements can be presented to your employees and consultants after they have been hired if handled properly. Typically, that means that the agreement must be presented with the notice that the employee's continued employment, or some additional compensation or benefit, is the consideration for the revised or new agreement.¹⁸

What Constitutes Misappropriation of a Trade Secret?

Suppose that despite your best efforts to audit and protect your trade secrets, an employee walks off with your trade secret material. What must you demonstrate to the court to stop the employee from disclosing your confidential material?

¹⁶ See, e.g., *Dionne v. Southeast Foam Converting & Packaging Inc.*, 240 Va. 297, 302, 397 S.E.2d 110, 113 (1990); *Ke-wanee Oil*, 416 U.S. at 475.

¹⁷ See, e.g., *Microstrategy Inc. v. Business Objects, S.A.*, 233 F.Supp. 2d 789, 794-95 (E.D. Va. 2002); *Zuccari Inc. v. Adams*, Ch. No. 143224, 1997 WL 1070565, at *3 (Va. Cir. Ct. April 10, 1997). However, note that non-competition agreements are considered restraints on trade and, therefore, are narrowly enforced. See *Motion Control Systems v. East*, 262 Va. 33, 37, 546 S.E. 2d 424, 425 (2001); *Linville v. Servisoft of Va. Inc.*, 211 Va. 53, 55, 174 S.E. 2d, 785, 786 (1970); *McGladrey & Pullen, LLP v. Schrader*, 62 Va. Cir. Ct. 401 (2003); *Shenandoah Chiropractor Inc. v. Berman*, 40 Va. Cir. Ct. 297 (1996).

¹⁸ See, e.g., *Paramount Termite Control Co. Inc. v. Rector*, 238 Va. 171, 176, 380 S.E.2d 922, 926 (1989).

¹⁵ See 35 U.S.C. § 154(b).

In order to prevail under the Uniform Trade Secrets Act, you must show, in addition to the fact that you kept the information "secret," that your trade secret has been "misappropriated." "Misappropriation" is defined two ways under the Act. First, it means acquisition of a trade secret "by a person who knows or has reason to know that the trade secret was acquired by *improper means*," which "includes theft, bribery, misrepresentation, breach of a duty or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means."¹⁹ Second, it means "disclosure or use" of a trade secret without your "express or implied consent" by someone who has "used *improper means* to acquire knowledge of the trade secret" or by someone who "knew or had reason to know" that his knowledge of the trade secret was:

- (1) derived from or through a person who had utilized *improper means* to acquire it;
- (2) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use;
- (3) derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or
- (4) acquired by accident or mistake.²⁰

Based on this statutory definition, a person does not necessarily have to actually use a trade secret to illegally "misappropriate" it, so long as he or she possesses the trade secret or has disclosed it. In practice, however, a determination of trade secret liability often turns on whether the person has acted on protected trade secret information versus publicly available sources or non-protected information that is generally known to the defendant. As one court has noted: "The owner of a trade secret is not entitled to prevent others from using public information to replicate his product, nor may the owner prevent others from making similar products which are not derived from the trade secret."²¹ Thus, owners of trade secrets should be prepared to counter the so-called "it's in my head" or "it's publicly known" defenses by connecting what the defendant has or claims to know to aspects uniquely identified with your trade secret. If you have properly identified your trade secrets as discussed herein, that will make your burden of proof before the court easier.

When Trade Secrets Are Stolen Despite Your Best Efforts to Protect Them

Suppose that despite your very best efforts to protect your trade secrets, you learn that a former employee has taken your trade secrets and is now actively using them to compete against you, or is threatening to do so. How can you protect your company?

Typically, some such situations resolve quickly with a "cease and desist" letter to the employee (and his prospective new employer) demanding return of the trade secret material and warning against any disclosure. If the employee and his new employer respond that they are not required to comply with your request—for example, by alleging that you failed to properly identify and protect your company's trade secret material—your

¹⁹ See Va. Code § 59.1-336.

²⁰ See *id.*

²¹ *American Can Co. v. Mansukani*, 742 F.2d 314, 329 (7th Cir. 1984).

remedy likely will take you to court where you will file a suit to prevent disclosure and for the return of your trade secret material. In most cases, the company seeking to prevent disclosure of trade secret material will file a suit for a temporary restraining order, followed by a preliminary and then a permanent injunction, asking the court to enjoin the former employee and/or his new employer from keeping, using, or disclosing its trade secret material. In addition, such suits often include additional causes of action for damages for breach of the employee's confidentiality agreement, NDA, and/or non-competition agreement, along with various business torts, such as tortious interference with contract and business relations, common law conspiracy, and conspiracy to injure another in its trade or business (available by statute in Virginia²²).

If forced to file suit, as you race to court to try to secure an injunction you will see your former employee in an entirely new and negative light. However, if your agreements with the former employee were properly drafted, your company will have a strong contract claim for immediate return of any trade secret material, either upon your request or in the event of a termination of work. A well-defined agreement also will provide for recovery of reasonable attorney's fees and, most importantly, express written consent by the employee to immediate entry of an injunction against him in the event of a breach of the confidentiality agreement, NDA, or non-competition agreement. If you believe the employee already has made disclosure to a third party, such as a new employer, you likely will want to join them in the suit on claims of misappropriation of your trade secret.

Courts can and do provide relief in these cases.²³ The trade secret statutes of Virginia, Maryland, and the District of Columbia permit injunctive relief against any "actual or threatened misappropriation."²⁴ Preliminary and permanent injunctive relief against misappropriation and disclosure of trade secrets also depends on the ability of a party to show the court that it is likely to succeed on the merits of the case at trial, that it will be irreparably harmed if an injunction is not entered, and that money damages will not make it whole.²⁵ If you have properly identified and protected your trade secrets, and have the recommended agreements with your employees, you will be in a much stronger position to meet your burden of proof if and when you need to go to court.

Note also that in order to obtain preliminary injunctive relief, there are significant costs at the beginning of the suit. Courts will require parties seeking an injunction to post a bond in the event the defendant has been wrongfully enjoined.²⁶ That is all the more reason to ensure that you have taken the necessary steps to identify and protect your trade secrets properly.

²² Va. Code §§ 18.2-499-500.

²³ See, e.g., *Dionne v. Southeast Foam Converting & Packaging Inc.*, 240 Va. 297, 397 S.E.2d 110 (1990); *Advanced Marine Enterprises Inc. v. PRC Inc.*, 256 Va. 106, 501 S.E.3d 148 (1998); *Worrie v. Boze*, 191 Va. 916, 62 S.E.2d 876 (1951).

²⁴ See Va. Code § 59.1-337(A); Md. Code, Com. Law § 11-1202(a); D.C. Code § 36-402(a).

²⁵ See Fed. R. Civ. P. 65; Va. Code § 8.01-620; *Blackwelder Furniture Co. v. Seilig Mfg. Co.*, 550 F.2d 189 (4th Cir. 1977).

²⁶ See Fed. R. Civ. P. 65(c); Va. Code § 8.01-631.

The Difficulty With Protecting Against Threatened Misappropriation of Trade Secrets Based on the 'Inevitable Disclosure' Doctrine

Injunctive relief for the *actual* misappropriation of trade secrets, authorized by the Uniform Trade Secret Acts of Maryland, Virginia, and the District of Columbia, follows the settled substantive and procedural law of equity in all three jurisdictions.²⁷ However, where injunctive relief is sought for the *threatened* misappropriation of trade secrets, a company may wish to predicate its action to stop a former employee from using the trade secrets from his former company by using the doctrine of inevitable disclosure, reinvigorated by the decision from the United States Court of Appeals for the Seventh Circuit in *Pepsi Co. Inc. v. Redmond*.²⁸

Where recognized, the inevitable disclosure doctrine generally arises in a case where a former employer alleges that its former employee is familiar with certain trade secrets of the former employer and that the subsequent employment of the former employee would inevitably require him to disclose and use such trade secrets as part of his new employment.²⁹ While the inevitable disclosure doctrine is recognized in a number of states, a company's reliance on the doctrine in Maryland, Virginia, and the District of Columbia to obtain injunctive relief for a threatened misappropriation of trade secrets is unlikely to be successful.

On May 13, 2004, the Maryland Court of Appeals rejected the application of the doctrine of inevitable disclosure as a basis for injunctive relief in *Le Jeune v. Coin Acceptors Inc.*³⁰ The trial court granted preliminary injunctive relief to Le Jeune's former employer, Coin Acceptors, restraining Le Jeune from working for Mars Electronics in certain specified industries. Acting on its own initiative, Maryland's high court granted a writ of certiorari and ruled that the trial court erred in relying upon the theory of inevitable disclosure. It then vacated the injunction and remanded the case for further proceedings consistent with its opinion.

The Maryland Court of Appeals acknowledged the evidence which supported the trial court's finding that Le Jeune had misappropriated his former employer's trade secrets, but it rejected the assumption that this necessarily would lead to the inevitable disclosure of the secrets to his new employer. The court also rejected the former employer's argument that inevitable disclosure is a form of "threatened" misappropriation under the Maryland Uniform Trade Secrets Act (MUTSA), concluding that "the theory of 'inevitable disclosure' cannot serve as a basis for granting a plaintiff injunctive relief under MUTSA."³¹ Even more broadly, the court held that "the theory of 'inevitable disclosure' . . . does not apply in Maryland."³² The court further determined

that Maryland's policy favoring employee mobility required it to reject the doctrine of inevitable disclosure. The court adopted the view that an injunction based upon the doctrine impermissibly creates a *de facto* covenant not to compete, which restricts the employee's right to work for the employer of his choice.³³

Neither the Virginia Supreme Court nor the District of Columbia Court of Appeals has considered whether the doctrine of inevitable disclosure is available in those jurisdictions. However, the fact that the highest courts of Virginia and the District of Columbia have yet to specifically consider the doctrine does not mean that they will write upon a clean slate if and when they do.

In 2001, the Virginia Supreme Court construed the Virginia Trade Secrets Act in *Motion Control Systems v. East* and held that, under the terms of the statute, injunctive relief requires "actual or threatened disclosure of trade secrets."³⁴ This is significant in light of the Maryland Court of Appeals' rejection in *Le Jeune* of the position that inevitable disclosure is a form of "threatened" misappropriation. It also is important because of the Maryland court's acceptance of the premise that the doctrine impermissibly permits an employer to enjoin a former employee without proof of the actual or threatened use of trade secrets based on an inference that the employee will use his knowledge of those trade secrets in the new employment.³⁵

Motion Control emphasized that injunctive relief under the Virginia Trade Secrets Act requires findings that the former employee actually disclosed or threatened to disclose trade secrets: "[m]ere knowledge of trade secrets is insufficient to support an injunction under the terms of Code § 59.1-337."³⁶ *Motion Control*, therefore, provides a reasonable basis for predicting that, when confronted with the doctrine of inevitable disclosure, the Virginia Supreme Court is likely to follow *Le Jeune*. Additional Virginia law also points in this direction.

In 1999, a Virginia circuit court, in *Government Technology Services Inc. v. Intellisys Technology Corp.*, sustained a demurrer to the plaintiff's claim for misappropriation of trade secrets because there would be an alleged "inevitable" disclosure of the plaintiff's trade secrets by one of the individual defendants.³⁷ The circuit court found that injunctive relief was not available because under the Virginia Trade Secrets Act (§ 59.1-337(A)) "only actual or threatened misappropriations may be enjoined. Virginia does not recognize the inevitable disclosure doctrine."³⁸ Despite the fact that the court cited no authority, and stated its holding in purely conclusory terms, a number of commentators have

²⁷ See the prior discussion of injunctive relief, immediately above.

²⁸ 54 F.3d 1262 (1995).

²⁹ See generally Roger M. Milgram, *Milgram on Trade Secrets* §§ 5.02[3][d] and [e] (2004) (hereinafter "Milgram"), which contains a thorough discussion of the doctrine of inevitable disclosure and a state-by-state compilation of judicial decisions addressing the doctrine. Inevitable disclosure has been the subject of numerous law review articles which discuss the various interpretations and limitations placed on the doctrine.

³⁰ 381 Md. 288, 849 A.2d 451 (2004).

³¹ 381 Md. at 322, 849 A.2d at 471.

³² 381 Md. at 300, 849 A.2d at 458.

³³ See 381 Md. at 321-22, 849 A.2d at 471.

³⁴ 262 Va. 33, 38, 546 S.E. 2d 424, 426 (2001).

³⁵ See 381 Md. at 321, 849 A. 2d at 471 (quoting *Whyte v. Schlage Lock Co.*, 101 Cal. App. 4th 1443, 1461-62, 125 Cal. Rptr. 277 (2002)).

³⁶ 262 Va. at 38, 546 S.E. 2d at 426; see also *Le Jeune*, 381 Md. at 322, 849 S.E. 2d at 471 (disapproving of the doctrine of inevitable disclosure because it would "also tend to permit a court to infer some inevitable disclosure of trade secrets merely from an individual's exposure to them") (citing *H&R Block Eastern Tax Servs. Inc. v. Enchura*, 122 F. Supp. 2d 1067, 1076 (W.D. Mo. 2000)).

³⁷ 51 Va. Cir. Ct. 55 (1999).

³⁸ *Id.*

cited the case for the proposition that Virginia has rejected the inevitable disclosure doctrine.³⁹

The trade secret acts of both Virginia and Maryland appear to permit the same judicial construction.⁴⁰ Accordingly, since *Le Jeune* specifically considered the doctrine of inevitable disclosure under the Maryland Uniform Trade Secrets Act, the similarity of the two acts may persuade the Virginia Supreme Court to ultimately adopt the Maryland Court of Appeals' reasoning in determining whether that doctrine can serve as a basis for granting a plaintiff injunctive relief under the Virginia Trade Secrets Act.

There are no decisions in the District of Columbia consistent with the Virginia decisions in *Motion Control* or *Government Technology Services*. Nonetheless, the District of Columbia Court of Appeals may well concur with the Maryland Court of Appeals decision in *Le Jeune* when it ultimately considers the doctrine of inevitable disclosure. The common law of the District of Columbia is based upon the common law of Maryland,⁴¹ and a Maryland Court of Appeals decision expounding upon the common law of that state is "an especially persuasive authority when the District's common law is silent."⁴² While *Le Jeune* considered the doctrine of the inevitable disclosure in the context of the injunctive provisions of Maryland's Uniform Trade Secrets Act, it appears to have done so through the application of common law principles. Moreover, the doctrine of inevitable disclosure is not part of the UTSA, or any state's Uniform Trade Secrets Act, nor is it otherwise codified. It has its origins at common law,⁴³ and has developed purely through case law.⁴⁴ In addition, the District of Columbia Court of Appeals has periodically looked to see whether Maryland has accepted or rejected specific legal doctrines,⁴⁵ and it may well do the same in the future when considering the doctrine of inevitable disclosure. The District of Columbia also has a policy favoring employee mobility similar to that of Maryland. The District of Columbia considers post-employment covenants to be "a form of restraint of

trade" and, in general, views "covenants not to compete with some suspicion."⁴⁶

Upon consideration of the doctrine of inevitable disclosure by the Virginia Supreme Court and the District of Columbia Court of Appeals, both courts may well adopt *Le Jeune*, thereby resulting in a rejection of the doctrine in all three jurisdictions. Nevertheless, an aggrieved holder of a trade secret should not consider that Maryland has barred any reliance upon inevitable disclosure in obtaining injunctive relief, or that it is necessarily barred from using the doctrine in seeking injunctive relief in Virginia or the District of Columbia.

In Maryland, despite the broad nature of the language in *Le Jeune* that "the theory of inevitable disclosure . . . does not apply in Maryland,"⁴⁷ there are indications in other portions of the opinion that the court was not stating a blanket rejection of the inevitable disclosure doctrine. In commenting upon the rationale of other courts in refusing to apply the doctrine, *Le Jeune* stated that "[w]e find this reasoning persuasive, especially as applied to the circumstances in the case before us."⁴⁸ Among the circumstances specifically noted in *Le Jeune*, which may be distinguished in other cases, are the absence of a confidentiality agreement or covenant not to compete,⁴⁹ and the fact that the injunction was apparently being sought solely by virtue of the defendant's exposure to the plaintiff's trade secrets.

In Virginia and the District of Columbia, until their highest courts have decided otherwise, there is certainly no prohibition on urging a trial court in either jurisdiction to use the doctrine of inevitable disclosure to support an injunction against "threatened" misappropriation of a trade secret, or on supporting such a request by relying upon courts in other jurisdictions which have accepted the doctrine and, unlike *Le Jeune*, have considered it to be a form of "threatened" misappropriation under the Uniform Trade Secrets Act.⁵⁰ In Virginia, this will require distinguishing *Motion Control* and assigning no precedent to *Government Technology Services*, but recognition or lack thereof of the inevitable disclosure doctrine is not a foregone conclusion.

Respecting Your Competitor's Trade Secrets: How to Protect Your Business When Hiring New Employees

You are now satisfied that you've taken the necessary steps to safeguard your confidential and other proprietary information from unauthorized disclosure by your

³⁹ The conclusions of these commentators go too far. A circuit court opinion has no precedential effect, and the conclusory nature of the decision concerning inevitable disclosure diminishes any future persuasive value which it may have with other Virginia circuit courts.

⁴⁰ See Va. Code §§ 59.1-336 et seq.; Md. Code, Com. Law §§ 11-1201 et seq.; *Motor City Bagels LLC v. The American Bagel Co.*, 50 F. Supp. 2d 460, 478 (D. Md. 1999) ("The same analysis (as to whether the defendants' conduct constituted a misappropriation of trade secrets) would apply under either Virginia or Maryland law as both states have adopted trade secret statutes which closely track the Uniform Trade Secrets Act."); *Avtec Systems Inc. v. Peiffer*, 21 F. 3d 568, 574 (4th Cir. 1994) (Maryland's trade secrets statute, like the Virginia law at issue, closely tracks the Uniform Trade Secrets Act).

⁴¹ *Medlantic Long Term Care Corp. v. Smith*, 791 A. 2d 25, 33 (D.C. 2002).

⁴² *Douglas v. Lyles*, 841 A. 2d 1, 5 n. 5 (D.C. 2004).

⁴³ Brandy L. Treadway, Comment, *An Overview of Individual States' Application of Inevitable Disclosure: Concrete Doctrine or Equitable Tool?* 55 SMU L. Rev. 621, 622 (2002).

⁴⁴ See, e.g., James J. Mulcahy and Joy M. Tassin, Notes, *Is PepsiCo the Choice of the Next Generation: The Inevitable Disclosure Doctrine and its Place in New York Jurisprudence*, 21 Hofstra Lab. Emp. L. J. 233, 250-59 (2003).

⁴⁵ See, e.g., *Bond v. Serano*, 566 A. 2d 47, 53 (D.C. 1989) (Farrell, J., concurring) (noting Maryland's rejection of the equitable tolling doctrine).

⁴⁶ *Gryce v. Lavine*, 675 A.2d 67, 70 (D.C. 1996) (quoting *Ellis v. James V. Hurbin Assoc.*, 565 A. 2d 615, 618 n. 12 (D.C. 1989)).

⁴⁷ 381 Md. at 300, 849 A.2d at 458.

⁴⁸ *Id.* at 322, 849 A. 2d at 471 (emphasis added).

⁴⁹ There is authority for the use of the inevitable disclosure doctrine to test the reasonableness of an executed covenant not to compete. See *Milgram* § 5.02(3)(d) at n. 49.1 (citing *Proctor & Gamble Co. v. Stoneham*, 140 Ohio App. 3d 260, 474 N.E. 2d 268, 279 (2000) (determining that, because disclosure would be inevitable, the restrictive covenant that the parties had bargained for was, therefore, reasonable and enforceable); *Lumex Inc. v. Highsmith*, 919 F. Supp. 624, 630-32 (E.D.N.Y. 1996); *Marcam Corp. v. Orchard*, 885 F. Supp. 294 (D. Mass. 1995); *Branson Ultrasonics v. Stratman*, 921 F. Supp. 909 (D. Conn. 1996).

⁵⁰ See *Pepsi Co.*, 54 F.3d at 1268-71.

current and former employees: (1) you have identified your trade secrets and implemented internal controls to keep them safe and (2) your key employees have signed reasonably drafted confidentiality agreements, NDAs, and non-competition agreements. However, your job as a risk-averse manager is not complete because your business also should be protected from allegations of improper use of another company's confidential and proprietary information.

As previously noted, a company's duty to respect its competitor's trade secrets is not only a matter of business ethics, but also necessary to protect the company from potential civil liability to its competitor for misappropriation of the latter's trade secrets and other business torts. This duty is of particular concern when a company is hiring new employees who may have been privy to their former employer's trade secrets, and whose anticipated new duties may likely implicate the use of those trade secrets.

It is evident that we have a skilled and mobile workforce. Spending an entire career with the same employer and earning a gold watch upon reaching retirement age is not a reality for most employees. Employees may not even stay with the same employer long enough today to vest in the company retirement plan. According to the Bureau of Labor Statistics of the U.S. Department of Labor, the median job tenure of wage and salary workers is 4.0 years before they seek other opportunities.⁵¹ Worker mobility is a fact of life in today's government contracting market, and it brings with it a significant risk which your company must take into consideration when interviewing and hiring employment candidates who were previously employed by a competitor or in the same industry.

What risk does your company take when it considers hiring a candidate who was previously a key employee of one of your competitors with access to and knowledge of its trade secrets? The candidate's former employer may take steps to protect its confidential information by filing a lawsuit against the candidate to enjoin him from working for your company. In addition to suing the individual, the former employer may have a remedy against your company, based on the decision to hire the candidate. For example, a claim for tortious interference with contract would require that the following elements be established: (i) the existence of a valid contract; (ii) knowledge of the contract on the part of your company; (iii) intentional interference inducing or causing a breach of the contract; (iv) damages resulting from the breach.⁵² In addition, the prospective em-

⁵¹ Bureau of Labor Statistics of the U.S. Dept. of Labor, *Employee Tenure in 2004*, stated September 21, 2004.

⁵² The former employer also may be required to establish that your company used improper methods to interfere, or that your company had no legal justification for the defendant's conduct. See (in Maryland): *Lyon v. Campbell*, 120 Md. App. 412, 431-32, 707 A.2d 850, 860 (1998); *Macklin v. Logan Assoc.*, 334 Md. 287, 296-308, 639 A.2d 112, 116-122 (1994); *Alexander v. Evander*, 336 Md. 635, 650-61, 650 A.2d 260, 268-73 (1994); (in Virginia): *Perk v. Vector Resources Ltd.*, 253 Va. 310, 314-15, 385 S.E.2d 140, 143 (1997); *Duggin v. Adams*, 234 Va. 221, 225-29, 360 S.E.2d 832, 835-38 (1987); *Chaves v. Johnson*, 230 Va. 112, 120, 335 S.E.2d 97, 102 (1985); (in D.C.): *Farash & Co. Inc. v. McClave*, 130 F. Supp. 2d 48, 56-7 (D.D.C. 2001); *Genetic Systems Corp. v. Abbott Laboratories*, 691 F. Supp. 407 (D.D.C. 1988); *Cooke v. Griffiths-Garcia Corp.*, 612 A.2d 1251, 1256 (D.C. 1992).

ployer may be sued for damages by the former employer for misappropriation of the latter's trade secrets. Further, in Virginia, the prospective employer may face a civil action for a conspiracy to injure the former employer in its trade or business.⁵³

Even if the candidate is not bound to a confidentiality agreement, an NDA, or a non-competition agreement, the former employer will be entitled to injunctive relief in Maryland, Virginia, and the District of Columbia for the actual or threatened misappropriation of a trade secret. Note, even if the inevitable disclosure doctrine were available, courts have almost uniformly looked for some evidence that the former employee harbored or made known his intent to disclose confidential information in order to base an injunction on threatened disclosure.⁵⁴

Regardless of whether the candidate is subject to a restrictive covenant, or it can be established that a candidate has disclosed or is threatening to disclose confidential and/or proprietary information, the potential costs of defending the litigation (regardless of its merits) may outweigh the potential benefit of hiring the candidate. In order to avoid this dilemma, employers should conduct the proper level of due diligence before every hiring decision—whether bringing on an individual candidate, or hiring multiple employees from the previous contractor.

Due diligence begins by conferring with counsel and management regarding potential employment related issues, gathering all available information about every candidate, conducting a thorough background check, and then making an informed hiring decision. The following steps should be considered as part of the due diligence process:

- **Interview the candidate about his previous employment history before you make an offer.** Assess whether the candidate was exposed to confidential information in the course of his duties for the former employer and determine the likelihood that the candidate will be called upon to use such information in connection with the position for which he is being considered.
- **Determine whether the candidate is subject to a restrictive covenant (e.g., a confidentiality agreement, an NDA, or a non-competition agreement) with a current or former employer.** Request copies of any such restrictive covenants and

⁵³ See Va. Code § 18.2-499 -500; see also *Feddeman & Co. v. Langan Assoc.* P.C. 260 Va. 35, 44-46, 530 S.E.2d 668, 673-75 (2000); *Virginia Vermiculite Ltd. v. Historic Green Springs Inc.*, 307 F. 3d 277, 284 (4th Cir. 2002).

⁵⁴ See *Pepsi Co.*, 54 F.3d at 1270-71 (evidence of bad faith demonstrated inevitability of misuse of trade secrets); *Sigma Chem. Co. v. Harris*, 586 F. Supp. 704, 710-11 (E.D. Mo. 1984) (“[T]he fact that defendant attempted to mislead plaintiff about his new employment . . . and solicited some of plaintiff's suppliers . . . strongly suggests a threat of harm to plaintiff.”); *Novell Inc. v. Timpanogos Research Group Inc.*, 46 U.S.P.Q.2d 1197, 1217 (Utah Dist. Ct. 1998) (high probability of the disclosure of trade secrets where ex-employees demonstrated a “predatory” intent and one had a “penchant for creating a separate reality and for deliberate misrepresentation”); *FMC Corp. v. Cyprus Foote Mineral Co.*, 899 F. Supp. 1477, 1483 (W.D.N.C. 1995) (North Carolina would not follow doctrine of inevitable disclosure absent “bad faith” or “underhanded dealing”). Other courts that have invoked the inevitable disclosure doctrine have required a finding of unwillingness on the part of the defendant to preserve confidentiality. See, e.g., *H&R Block E. Tax Servs. v. Enchura*, 122 F. Supp. 2d 1067, 1075 (W.D. Mo. 2000).

have them reviewed by internal or outside counsel *before* making an offer of employment. If there is insufficient time to have the agreement reviewed before an offer is extended, make the offer contingent upon a full review by counsel.

- ***If the candidate is subject to a restrictive covenant, make an informed decision and perform a cost/benefit analysis.*** Consider both whether the agreement would restrict the candidate's ability to perform the duties of the position for which he is being recruited, and if it is a "close call," whether you want to risk litigating the issue. Also, determine whether you want to pay for the legal costs that you and the candidate may incur if the former employer decides to sue.
- ***Place the burden on the candidate to avoid disclosing proprietary information and trade secrets of his former employer.*** Require all incoming employees to sign an agreement in which they promise not to disclose any trade secrets acquired from a previous employer and they specifically acknowledge that such disclosure of a previous employer's trade secrets will constitute grounds for discharge. Additionally, if you determine or suspect that a candidate is not subject to any restrictive covenants from a previous employer, have him execute a written agreement which confirms that he is not subject to any restrictions that would prevent his employment. In short, make it very

clear that it is the candidate's responsibility to avoid disclosing protected information from his/her former employer.

- ***Protect your investments.*** Once you have performed your due diligence analysis and are prepared to offer the position, condition the employment upon the execution of a covenant not to compete, a non-solicitation agreement, and/or a confidentiality agreement. Also, if you (and counsel) have reviewed the new employee's restrictive covenants and believe that hiring the employee is a safe decision, re-examine any restrictive covenants based upon what you may have learned from the process.

Conclusion

The protection of a company's trade secrets—and a company's respect for those of its competitors—requires constant effort and diligence, but the rewards are the undiminished independent economic value of those secrets to the company, enhanced reputation for its business ethics, and lowered risk of potential litigation. These are worthwhile rewards for any business and in many cases, are essential to its ability to survive and prosper.