
**COMPETING FOR TALENT AND
PROTECTING BUSINESS VALUE: NON-
COMPETE AGREEMENTS AND TRADE
SECRET LAW IN WASHINGTON**

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I. COVENANTS NOT TO COMPETE

A. General.

Non-compete agreements are well established and enforceable under Washington law. Some states, like California, enforce non-competition covenants involving the sale of a business or segment but not similar covenants between an employer and employee, because the employee's "right to work" eclipses the employer's interest in protecting its business value. E.g., Cal. Bus. & Prof. Code § 16600 and Moss Adams v. Schilling, 224 Cal. Rptr. 456, 459-60, 179 Cal. App. 3d 124, reh'g denied, review denied (1986), (anti-solicitation covenants void as unlawful business restraints except when needed to protect trade secrets). California's "employee mobility" policy is so strong that its courts even refuse to enforce non-competes signed by out-of-state employees who are moving to new jobs in California. E.g., Robinson v. Jardine Insurance Brokers Int'l. Ltd., 856 F. Supp. 554 (N.D. 1994), and The Application Group, Inc. v. The Hunter Group, 61 Cal. App. 4th 881, 72 Cal. Rptr. 2d 73 (1998). A federal court has stated that the inevitable disclosure doctrine might be inconsistent with California law to the extent that it creates a de facto covenant not compete. Bayer Corp. v. Roche Molecular Sys., Inc., 72 F. Supp. 2d 1111 (N.D. Cal. 1999); cf. Electro Optical Indus., Inc. v. White, 90 Cal. Rptr. 680, 76 Cal. App. 4th 653 (1999) (adopting the inevitable disclosure doctrine rule). California also appears to have a statutory requirement for pleading with specificity a trade secret check.

For these reasons, one should be careful in relying upon California authorities in Washington courts.

Most states, like Washington (and Oregon), enforce non-compete agreements between employees and their employers, but with reservations. Because they impede the employee's right to work and the public's unfettered access to services, non-competes are scrutinized as "bargains in restraint of trade." Organon, Inc. v. Hepley, 23 Wn. App. 432, 436 n.1, 595 P.2d 1314 (1979); cf. Outsource Int'l, Inc. v. Barton, 192 F.3d 662, 669 (1999)(Posner, C.J., dissenting)(stating there is no reason for judicial hostility to noncompetes).

Restatement (Second) of Contracts § 188 cmt. g. (1981) warns:

Post-employment restraints are scrutinized with particular care because they are often the product of unequal bargaining power and because the employee is likely to give scant attention to the hardship he may later suffer through loss of his livelihood. This is especially so where the restraint is imposed by the employer's standardized printed form. A line must be drawn between the general skills and knowledge of the trade and information that is peculiar to the employer's business. If the employer seeks to justify the restraint on the ground of the employee's knowledge of a process or method, the confidentiality of the process or method and its technical life may be critical . . . If the employer seeks to justify the restraint on the ground of the employee's ability to attract customers, then the nature, extent and locale of the employee's contacts with the customers are relevant.

These principles have spawned a three-factor test in Washington: (1) whether restraint is necessary for the protection of the business or goodwill of the employer, (2) whether the restraint imposes upon the employee any greater restraint than is reasonably necessary to secure the employer's business or good will and (3) whether the degree of injury to the public is such loss of the service and skill of the employee as to override the covenant. Wood v. May, 73 Wn.2d 307, 309-10 (1968); Perry v. Moran, 109 Wn.2d 691, 700, 748 P.2d 224, 230 (1987), aff'd as modified, 111 Wn.2d 885, 766 P.2d 1096), cert. denied, 109 S. Ct. 328 (1989); Racine v. Bender, 141 Wash. 606, 610-11, 252 P. 115 (1927); and Sheppard v. Blackstock Lumber Co., 85 Wn.2d 928, 932-33, 540 P.2d 1373 (1975).

1. Sale of a Business. In Washington, business sale agreements may contain non-compete provisions enforceable for as long as it takes to protect the goodwill purchased by the new owner: the noncompete could be 10 years, e.g., Lyle v. Haskins, 24 Wn.2d 883, 168 P.2d 797 (1946), or even for the life of the seller, e.g., Merager v. Turnbull, 2 Wn.2d 711, 99 P.2d 434 (1940) (covenant with no limit on duration enforced by injunction and damages to protect goodwill of funeral home business purchased by plaintiff). Washington courts are not so generous in their enforcement of employee non-competes, recognizing they may deny an employee "the opportunity to earn a livelihood." Wood v. May, 73 Wn.2d 307, 316 (1968) (dissenting opinion). Alexander & Alexander, Inc. v. Wohlman, 19 Wn. App 670, 685-88, 578 P.2d 530 (1978).

A no hire agreement preventing one company from hiring the employees of a divested affiliate may not be per se illegal under the Sherman Act and may be permissible under the Rule of Reason test. Eichorn, 2000 Trade Cases, 73,241 (3d Cir. ??).

2. Employee Non-Compete Cases. In Washington, non-competes between employers and employees are enforced, but courts are obligated to revise the noncompete provisions so that they do not unreasonably burden the former employee.

There is some Washington authority that oral noncompete and confidentiality agreements are enforceable. See Island Air, Inc. v. LaBar, 18 Wn. App. 129, 138-39, 566 P.2d 972 (1977); United Dye Works v. Strom, 179 Wash. 41, 35 P.2d 760 (1934); Barash v. Robinson, 142 Wash. 118, 252 P. 680 (1927); see United Support Ass'n v. Mellon, 1999 Wash. App. LEXIS 634 (April 12, 1999) (unpublished).

B. Protectable Interest and Court Tailoring of Restraints.

An employer may protect its customer relationships and confidential information acquired by an employee through her employment. Perry v. Moran, 109 Wn.2d 691, 700-04, 748 P.2d 224, 230 (1987) (altering but upholding non-compete provisions with liquidated damage formula applied to former employee when serving her former firm's clients for three years), aff'd as modified, 111 Wn.2d 885, 766 P.2d 1096), cert. denied, 109 S. Ct. 328 (1989).

1. Consideration. Training and gainful employment may be sufficient for an employer to create a protectable interest in a non-compete with a former employee. Wood v. May, 73 Wn.2d 307, 438 P.2d 587 (1968) (several months of training in the craft of horseshoeing created protectable interest).

In at least some instances, the promise of future employment provided sufficient consideration to enforce a non-compete, even when the non-compete was not disclosed until the employee arrived at work. Knight, Vale & Gregory v. McDaniel, 37 Wn. App. 366, 368-69 (1984). In contrast, see Schneller v. Hayes, 176 Wash. 115, 28 P.2d 273 (1934) (non-compete not enforced against optometrist who uprooted, was retained on “weekly” basis, then was released due to lack of business); and see other state variations, like Oregon Revised Statute 653.295, which bars enforcement of a non-compete if not signed upon commencement of employment or promotion. See, e.g., Ikon Office Solutions, Inc. v. Belanger, 59 F. Supp. 2d 125 (D. Mass. 1999)(ruling employer was not likely to succeed on merits as agreement was signed after employment began and there was no evidence of consideration). Further, Washington courts have not addressed whether doctrines such as unconscionability, adhesion contracts, and unfair and deceptive acts and practices provide a remedy rendering a noncompete unenforceable. Schroeder v. Fageol Motors, Inc., 86 Wn.2d 256, 259-60, 544 P.2d 20 (1975)(discussing unconscionability in general); Yakima Cy. (West Valley) Fire Protection District v. Yakima, 122 Wn.2d 371, 393, 858 P.2d 245 (1993); Blakely v. Housing Author. of King Cy., 8 Wn. App. 204, 212-13, 505 P.2d 151 (1973); cf., Alexander & Alexander, 19 Wn. App. at 672 (raising 19.82.030, restraint of trade as a defense).

A contract not to compete not discussed in a job offer and signed after the employee resigns his former job and has commenced employment may not be enforceable through injunctive relief. Compare Schneller v. Hayes, 176 Wash. 115, 28 P.2d 273 (1934) (denying relief) with Machen, Inc. v. Aircraft Design, Inc., 65 Wn. App. 319, 329-32, 828 P.2d 73 (1992) (addressing only the consideration issue). The court in Machen summarized Schneller as follows:

In Schneller, an optician living in Montana orally agreed to work for an optometrist in Washington. It was disputed whether a noncompetition agreement was discussed before the optician resigned his former job. Shortly after commencing work in Washington, the optician was asked to sign a noncompetition agreement. At first he refused, but he signed the agreement on August 24, 1932. After his compensation was reduced over a period of 6 months, he quit and set up a competing optical business. His employer sued for breach of the noncompetition agreement. Schneller, at 118-19, held the agreement lacked consideration because it did not promise future employment and stipulated nothing as to wages. Although we note the agreement did not disclose what instruction the employee received or what experience he acquired during employment, Schneller did not hold that a promise of future employment standing alone was insufficient consideration to support a noncompetition agreement. Schneller, at 120-21.

The Machen court addressed the issue of lack of consideration; there is no record that unconscionability, unfairness, and adhesion contract were raised or addressed.

When a Washington court finds that a non-compete is too broad in scope or duration, it will reduce the restrictions to the minimum needed to protect the employer’s reasonable interests. Thus, in Wood v. May, the court found the territorial restriction of 100 miles and the duration of five years excessive and remanded because, “While guidelines set down in similar cases are helpful, the facts of a given case must determine the reasonableness of the restrictions imposed.” 73 Wn.2d at 312.

The Wood v. May court required, and found, sufficient consideration to enforce the covenant to some extent, because it was supported by consideration—the employer taught the employee to be a proficient horseshoer. “This is adequate consideration for a promise not to compete in a trade which involves **a unique personal relationship between tradesmen and the customer.**” 73 Wn.2d at 321 (emphasis added). The dissenters in Wood v. May not only found the covenant to be unreasonable, but opined that even a modified restriction was not “a reasonable quid pro quo for being taught the occupation of horseshoeing.” 73 Wn.2d at 321. See also Copier Specialists, Inc. v. Gillen, 76 Wn. App. 771, 887 P.2d 919 (1995) (former employee terminated by employer after 6 months on job - - two to three months spent training), no confidential information taken to new employer and no customer contact in new position - - court refused to enforce three-year, 50-mile radius provisions when only protectable interest was plaintiff’s investment in training). Generally, skill acquired during employment cannot alone justify enforcement of a non-compete. Copier Specialists, 76 Wn. App. at 774.

In some contexts such as the internet, a one-year noncompete may be excessive. Earthweb, Inc. v. Schlack, 71 F. Supp. 2d 299, 313 (S.D.N.Y. 1999); Doubleclick, Inc. v. Henderson, 1997 WL 731413 (N.Y. Sup. 1997).

Some courts have ruled that a noncompete should be narrowly construed to cover only those clients with whom the employee had personal contacts during his employment. See BDO Seidman v. Hirshberg, 93 N.Y.2d 382, 712 N.E.2d 1220, 690 N.Y.2d 854 (1999) (“To the extent, . . . the Manager’s Agreement requires defendant to compensate BDO for loss of patronage of clients with whom he never acquired a relationship through the direct provision of substantive accounting services during his employment, the covenant is invalid and unenforceable.”) Other courts look to whether the employer had a near permanent relationship with the customer, whether unique services or product were offered, and whether there was a professional relationship. See, Outsource Int’l, Inc. v. Barton, 192 F.3d 662, 666 (1999) (Illinois test for noncompetes: (1) customer relationships are near-permanent and but for the employee’s association with the employer the employee would not have had contact with the customers--near permanent status is inherent in professional services and is generally absent when plaintiff’s business does not offer a unique product or service and customers utilize many suppliers to meet their needs—or (2) the former employer acquired trade secrets or other confidential information through his employment and subsequently tried to use it for his own benefit); Ticor Title Ins. Co. v. Cohen, 173 F.3d 63, 70 (2d Cir. 1999) (employee services which are unique or special as a factor).

2. What happens when the employer with non-compete agreements sells its business? In Washington, the non-compete probably survives the transfer to new ownership. In Alexander & Alexander, Inc. v. Wohlman, 19 Wn. App. 670, 687-88 (1978), an insurance brokerage firm purchased the business that had previously employed defecting brokers whose non-competes barred their solicitation of their former employer’s customers for a period of five years after termination. The purchaser sought an injunction and damages. The non-competes were enforced but ultimately with alterations. Although a preliminary injunction was granted, the trial court ruled the agreement was unenforceable. The court of appeals blue penciled the agreement. The five-year period was reduced to two, the noncompete was deleted, the nonsolicit and nondiversion was kept and the territorial restrictions were reduced to the Seattle area, where the former employer’s business was concentrated. The case was remanded for a determination of provable damages limited to that period and area. See also Armstrong v. Taco Time, Int’l.

30 Wn. App. 531, 544-46 (1981). (Trademark cases may also supply useful authority to ascertain the geographic region – the trade area – in which a non-compete will be enforced.)

3. Non-competes in franchise agreements. Washington courts have enforced non-competes in franchise agreements as well. In Armstrong v. Taco Time, Int'l, 30 Wn. App. 531 (1981), the plaintiff brought a declaratory judgment action seeking relief from a covenant that barred competition anywhere in the entire continental United States for five years. The court found franchise agreements analogous to employment (rather than business sale) contracts and analyzed the non-compete accordingly. It reduced the territorial restriction to the “buffer zones” used by the contracting parties to determine franchise areas in which other franchisees would refrain from direct competition and reduced the five-year restriction to two and one-half years.

4. Non-solicit vs. non-compete considerations. In Perry v. Moran, the defendant had not solicited the business of her former employer’s clients. 109 Wn.2d at 695. However, a number of the clients voluntarily followed Moran to her new firm and supplied considerable revenue. To show that her non-compete was excessive, Moran contended that her former employer could “protect its client base by merely prohibiting a former employee from soliciting or diverting those clients from the employer.” 109 Wn.2d at 701. The court disagreed, ruling that non-solicit rather than non-compete terms would place upon the employer “the burden of proving (1) that the former employee performed some act or acts which had the potential of enticing clients away from the employer, and (2) that those acts were the cause of the client’s decision to leave the employer.” 109 Wn.2d at 701. Since proof of these elements would be problematic and expensive and would injure relations between the former employer and the clients involved, and therefore damage the employer’s good will, it was “reasonable for [the] employer to preclude [the] employee from servicing those who were clients of the employer . . . for a period after the cessation of employment.” This insight applies equally to another key issue -- the struggle to prove damages from trade secret misappropriation -- and plays a role in the use of injunctions rather than damages to protect trade secrets, even in the absence of non-competes. Infra.

What constitutes a solicitation is not clear. See Lotenfoe v. Pahk, 1999-2 Trade Cas. (CCH) ¶ 72,742 (Fla. Ct. App. 1999) (reversing injunction and ruling that newspaper advertisement announcing doctor was accepting new patients was not direct solicitation violating covenant prohibiting doctor from “directly or indirectly act[ing] in a professional capacity that competes in a substantial degree with the employer” and that the fact a patient voluntarily seeks out a doctor at his new practice does not establish direct solicitation); King v. Jessup, 698 So.2d 339 (Fla. App. 1997) (affirming denial of injunction and stating placement of advertisement in local paper was not direct solicitation of past patients); Wells v. Merrill Lynch, 919 F. Supp. 1047, 1053 (E.D. Ky. 1994); accord, Zurich Ins. Co. v. Sunclipse, Inc., 2000 U.S. Dist. Lexis 693 (N.D. Ill. Jan. 24, 2000) (Advertising means “widespread promotional activities directed to the public at large” while solicitation often is one-to-one contacts and is a subset of advertising). A tombstone announcement is not a solicitation. Nowogroski, 137 Wn.2d at 440 n. 4. Responding to bid request may be. Vernon v. Lopez, 2000 Wash. App. Lexis 351.

Ironically, Washington courts have occasionally altered non-compete agreements to permit a former employee to operate a competing business but not solicit customers of the former employer. E.g., Columbia College of Music & School of Dramatic Art v. Tunverg, 64 Wash. 19, 116 P. 280 (1911) (competing music lesson business allowed, but not soliciting

former students), Alexander & Alexander v. Wohlman, 19 Wn. App. 670, 578 P.2d 530 (1978) (damages limited to revenues from diverted customers of former employer). Compare strong protectable interest when former employee developed personal relationships with customers in order to enhance business (Wood v. May) versus weak interest when former employee had little or no customer contacts (Copier Specialists).

5. Exceptions -- no enforcement at all. Generally, Washington courts do not enforce employee non-competes for durations greater than 2 to 3 years. In particular hardship cases, or when an employer acts unfairly, a non-compete might not be enforced at all. For example, if the employee has been terminated by the employer, and has no trade secret information or special customer relationships that pose a threat to the existence of the former employer, a court might decline to enforce the non-compete. E.g., Schneller v. Hays, 176 Wash. 115; Ma & Pa, Inc. v. Kelly, 342 N.W.2d 500 (Iowa 1984) (court refused to enforce non-compete primarily because employee was discharged by employer; notwithstanding employer having taught employee the business, revealed to him its customer list, provided the employee with supplier information and permitted extensive customer contact by employee, who took some of employer's largest customers away after departing and finding job with competitor; employer had refused to renegotiate the employee's commission before terminating him and its customer list was obtainable from other sources).

6. Duties of employees and contractors. An employee's duty of loyalty to her employer has long been established and embodied in the Restatement (Second) of Agency. E.g., Section 387 (duty to act solely for benefit of principal on all agency matters), Section 389 (duty not to deal with principal as adverse party), Section 393 (duty not to compete with principal on agency matters) and Section 295 (duty not to use or disclose confidential information in competition with principal). Thus, an employee violates the duty of loyalty by soliciting customers for a competing business while still on the employer's payroll.

Soliciting fellow employees to defect prematurely could breach fiduciary duties and constitute tortious interference. E.g., Alexander & Alexander Bens. Servs., Inc v. Benefits Brokers and Consultants, 756 F. Supp. 1408, 1411-14 (D. Or. 1991) (even without non-compete, injunction granted against former key employee who operated in direct competition with employer while still employee, failed to give notice of intent to leave and organized a mass resignation); Lewis Pacific Dairymen's Ass'n v. Turner, 50 Wn.2d 762, 314 P.2d 265 (1957) (civil conspiracy by defendant to solicit other employees to leave with him); and see State ex rel. Hayes Oyster Co. v. Keypoint Oyster Co., 64 Wn.2d 375, 391 P.2d 979 (1964) (usurpation of corporate opportunity violates manager's duties); Organon v. Heppler, 23 Wn. App. 432, 595 P.2d 1314 (1979) (moonlighting drug salesman violated policy against outside businesses by using employer expense account to promote personal side business while confusing customers as to his employer's involvement); Kamin v. Kuhnau, 374 P.2d 912, 914-15 (Or. 1962) (independent contractor assisting plaintiff to develop improved garbage truck bodies had implied duty not to disclose or exploit confidential information to usurp business opportunity); Boeing Co. v. Sierracin Corp., 108 Wn.2d 38, 45, 47-48, 738 P.2d 665 (1987) (subcontractor misappropriation).

7. Employee's preparations to leave. An at-will employee is free to make preparations to quit -- even for the purpose of establishing a competing business -- as long as the employee does not actually solicit customers for the rival business. See, e.g., Abraham Zion

Corp v. Lebow, 593 F. Supp. 551 (S.D.N.Y. 1984), aff'd, 761 F.2d 93 (2d Cir. 1985); Maryland Metals, Inc. v. Metzner, 282 Md. 31, 382 A.2d 564 (1978) (employees did not breach duty to employer by making secret preparations to leave and compete with employer including forming corporation, contacting investors, applying for loan and entering agreements to purchase land and equipment for competing facility); Cudahy Co. v. American Laboratories, Inc., 313 F. Supp. 1339, 1346 (D. Neb. 1970) (departing employee did not breach duties to employer as employee did nothing to “substantially hinder the employer in the continuation of his business”).

II. TRADE SECRETS

A. Sources of Washington Trade Secret Law.

1. Common Law Origins. Virtually all states have incorporated Restatement of Torts (1939) § 757 into their common law. Trade secrets are creatures of state law, and Washington, like most other states, has adopted the Uniform Trade Secrets Act. RCW 19.108.010-940. See also ORS 646.460-.510. A good background treatise is Roger M. Milgrim, Milgrim on Trade Secrets (1999).

2. Uniform Trade Secrets Act.

The Washington Trade Secrets Act, RCW Chap. 19.108, displaced all conflicting tort law addressing civil liability for misappropriating a trade secret. To invoke this statute, a plaintiff must prove it had “trade secrets.” That means information deriving economic or potential value “from not being generally known to, and not being readily ascertainable by proper means” by others who could “obtain economic value from its disclosure or use.” The information also must be “the subject of efforts that are reasonable under the circumstances to maintain the secrecy.” RCW 19.108.010(4)(1989).

a. Reasonable efforts to keep secret. Trade secrets cannot be proven if the plaintiff cannot prove reasonable efforts to maintain secrecy. Machen, 65 Wn. App. at 327-29. Security measures are a preliminary question in a trade secret case, and permitting employees to take home documents (or computer disks or other recording media) suggests the employer’s interest in security is minimal. Buffets, Inc. v. Klinke, 73 F.3d 965, 969 (9th Cir. 1996) (applying Washington law, job manuals that employer allowed personnel to take home when they were supposed to be kept in the manager’s office while not in use were not a trade secret); Formax, Inc. v. Hostert, 841 F.2d 388 (D.C. Cir. 1988) (prolonged failure to invoke legal proceedings; lack of evidence guarding secrets and no showing of irreparable harm); Nationwide Mut. Ins. Co. v. Stinger, 695 F.2d 688 (D. Conn. 1988).

Reasonable secrecy efforts typically means “advising employees of the existence of a trade secret, limiting access to a trade secret on a ‘need to know basis,’ and controlling plant access.” Machen, Inc. v. Aircraft Design, Inc., 65 Wn. App. at 327. Examples of sufficient efforts to establish secrecy include putting “employees on notice by requiring [them] to sign non-disclosure agreements . . . restrict[ing] visitor access to [sensitive employer work areas] . . . [keeping] . . . information . . . in locked files . . . and . . . distribut[ing] . . . information only on a need to know basis.” Surgidev Corp. v. Eye Technology, Inc., 828 F.2d 452, 455 (8th Cir. 1987). In contrast, an unsuccessful plaintiff in Gordon Employment Inc. v. Jewell, 356 N.W.2d 738, 741 (Minn. App. 1984) kept the information in an unlocked file. Insufficient secrecy efforts also

have included failing to prevent the unnecessary proliferation of copies of the information in question, Rockwell Graphic System v. Dev Industries, 730 F. Supp. 171, 177 (N.D. Ill. 1990), rev'd on other grounds, 925 F.2d 174 (7th Cir. 1991), and revealing information to a third party without requiring an agreement to preserve confidentiality. Machen, supra, 65 Wn. App. at 327. Examples of trade secrets can be found in Alois Valerian Gross Annot., What is "Trade Secret" so as to Render Actionable Under State Law its Use or Disclosure by Former Employee, 59 A.L.R.4th 641 (1988).

The unsealed filing of a trade secret document is a factor in determining whether the document's contents remain a trade secret. Hoechst Diafoil Co. v. Nan Ya Plastics Corp., 174 F.3d 411, 419 (4th Cir. 1999) (holding presence of document in court's public files in and of itself does not make information generally known for the purposes of the UTA); Gates Rubber Co. v. Bando Chem. Indus., Ltd., 9 F.3d 823, 849 (10th Cir. 1993); Religious Techn. Ctr. v. Netcom On-Line Comm. Servs., Inc., 923 F. Supp. 1231, 1255 (N.D. Cal. 1995); Religious Techn. Center v. Lerma, 980 F. Supp. 1362, 1368 (E.D. Va. 1995)(documents disclosed in public court files and posted on internet lost its trade secret status); Plastic & Metal Fabricators v. Roy, 163 Conn. 257, 303 A.2d 725, 731 (Conn. 1972) (did not by itself destroy secrecy); Jackson v. Hammer, 274 Ill. App. 3d, 653 N.E.2d 809, 816 (1995) (attaching customer list as an exhibit to unsealed affidavit was one among several factors destroying status); see also Jochims v. Isuzu Motors, Ltd., 151 F.R.D. 338, 342 (S.D. Iowa 1993)(introduction into trial as an exhibit does not destroy otherwise confidential status); Boeing, 108 Wn.2d at 53 (publication of exhibits during trial, after unsuccessful motion to exclude public and later sealing of record did not cause loss of secrets).

Whether a document submitted to the government is a trade secret and remains one is a case-by-case determination. See Confederated Tribes of the Chelan Reservation v. Johnson, 135 Wn.2d 734, 958 P.2d 260 (1998) (amount of two percent community contributions owed by tribes under gaming compact were not a trade secret because knowledge of profitability could be ascertained through newspaper articles, visiting the casino, and through individuals who are recipients of community contributions newspaper articles giving estimates were in the record); Spokane Research & Defense Fund v. City of Spokane, 96 Wn. App. 568, 983 P.2d 676 (1999) (lease is not novel; pro formas and credit studies prepared at request of City were not trade secrets exempt from disclosure)

b. Precise identification of trade secrets. A plaintiff bears the burden of identifying with "sufficient particularity" its trade secret. Imax Corp. v. Cinema Technologies, Inc., 152 F.3d 1161, 1164 (9th Cir. 1998). See also Universal Analytics v. MacNeal-Schwendler Corp., 707 F. Supp. 1170, 1177 (C.D. Cal 1989), aff'd, 914 F.2d 1256 (9th Cir. 1990).

c. Economic value from disclosure or use. Once a trade secret is precisely identified, a defendant can still defeat protection by demonstrating that "the information is generally known or readily ascertainable by other persons who can obtain economic value from its disclosure or use." Precision Molding & Frame, Inc. v. Simpson Door Co., 77 Wn. App. 20, 26-27, 88 P.2d 1239 (1995). The standard is the "accessibility of the information within a given industry." Id. at 27. The industry is broadly defined to anyone who can obtain economic value from a process secret. 77 Wn.2d at 27 (woodworking industry versus merely the door molding industry).

Keep in mind that a misappropriation can occur even through means that would normally be proper, but under certain circumstances, would violate the Trade Secrets Act. The classic example is the use of aerial reconnaissance to examine a competitor's plant layout during construction. I.E. duPont de Nemours & Co., v. Christopher, 431 F.2d 1012 (5th Cir. 1970), cert. denied, 400 U.S. 1024 (1970); cf. Precision Molding, 77 Wn. at 24 (buyer prevented from seeing machine but supplier observed machine). Proper sources for obtaining what otherwise might be trade secret information would include reverse engineering, independent invention, license from a trade secret owner, observation of the secret on display or in public use and in published literature.

The crucial issue under Washington law is the degree of novelty and economic value necessary to create trade secret status. Confederated Tribes, 135 Wn.2d at 749-850 (information must be novel; no evidence that casino's profitability could not be generally ascertained through site visits, articles, and persons). Confederated Tribes cites Machen for novelty and Buffets. Machen doesn't mention novelty, Buffets does. In Boeing, novelty was mentioned in a section discussing copyrights and preemption. Boeing, 108 Wn.2d at 49 (protection if some novelty and confidential); (Buffets, Inc., 73 F.3d at 968, BBQ chicken and macaroni and cheese recipes lacked requisite novelty; no evidence of relationship between recipes and lack of success by competitors; actual recipes used were simplified versions).

A plaintiff who cannot prove a statutory "trade secret" may still recover by proving the breach of a confidential relationship, including one created by contract. Boeing Co. v. Sierracin Corp., 108 Wn.2d 38, 48. E.g., Alexander & Alexander Bens. Servs., 756 F. Supp. at 1411-14, and Kamin v. Kuhnau, supra, 374 P.2d at 915. But see Machen, Inc. v. Aircraft Design, 65 Wn. App. 319, 332, 828 P.2d 73, 80 (1992) (failure to prove confidentiality relationship based upon alleged industry standard), review denied, 120 Wn.2d 1007 (1992). An employer/employee relationship is a confidential relationship, Nowogrowski, infra, as is a doctor/patient, and attorney/client relationship. What evidence is sufficient to prove an implied-in-fact confidentiality agreement based upon a confidential relationship is a developing area of the law. Implied at law duties are difficult to establish. Berkla v. Corel Corp., 66 F. Supp. 2d 1129 (E.D. Cal. 1999) (implied at law duty if there is an understanding that the information was confidential and the receiving party would maintain the confidentiality).

Not every component of a "formula, pattern, compilation, program, device, method, technique or process" (RCW 19.108.010) has to be a secret in order for the entire compilation to be protected; its elements may be in the public domain but taken together they may be protected. Boeing Co v. Sierracin Corp., 108 Wn.2d at 50 ("A trade secrets plaintiff need not prove that every element of an information compilation is unavailable elsewhere"). Moreover, transferring trade secrets to another does not destroy their "secret" status, so long as efforts to maintain confidentiality continue. 108 Wn.2d at 5. For example, transfer of secrets under confidentiality agreement, exposure of secrets in trial exhibits but with file sealed and courtroom closed during presentation of evidence containing trade secrets do not affect the status of the secrets. Boeing Co. v. Sierracin Corp. involved engineering drawings, aircraft window and other components, and tooling processes. Protecting design information has generally been much less problematic than other types of business information, such as customer lists.

The composite or gestalt aspect of trade secrets creates a sliding scale for the protectability of the secret, how secret the secret is, how valuable it is to others. Integrated Cash

Management Servs., Inc. v. Digital Transactions, Inc., 920 F.2d 171, 174 (2d Cir. 1990) (“a trade secret can exist in a combination of characteristics and components, each of which, by itself, is in the public domain, but the unique unified process, design, and operation of which, in unique combination, affords a competitive advantage”); Boeing Co. v. Sierracin, 108 Wn.2d at 50 (“trade secrets plaintiff need not prove that every element of an information compilation is unavailable elsewhere. * * * Such a burden would be insurmountable since trade secrets frequently contain elements that by themselves may be in the public domain but together qualify as trade secrets.”); Machen, Inc., 65 Wn. App. at 327 (ruling last whole concept lacked sufficient novelty and uniqueness) see also Rivendell Forest Products, Ltd. v. Georgia-Pacific Corp., 28 F.3d 1042, 1046 (10th Cir. 1994)(a “trade secret can include a system where the elements are in the public domain, but there has been accomplished an effective, successful and valuable integration of the public domain elements and the trade secret gave the [trade secret owner] a competitive advantage which is protected from misappropriation”); Telex Corp. v. International Business Mach. Corp., 510 F.2d 894, 929 (10th Cir. 1975) (information constituted a trade secret even though it could have been procured by a competitor “given enough time and expense, by independent investigation, research or experience”); Architectronics, Inc. v. Control Sys., Inc., 935 F. Supp. 425, 437 (S.D.N.Y. 1996)(“trade secret protection requires only a minimum level of novelty. **The whole may be greater than the sum of its parts here**, because there may be sufficient novelty sole in [plaintiff’s] combination of known elements.” Emphasis added); Cybertek Computers Prods., Inc. v. Whitfield, 203 U.S.P.Q. (BNA) 1020 (Cal. Sup. Ct. 1977)(while general concepts are not protectable; specific implementation of involving a particular combination of general concepts may well amount to a trade secret; the entire bundle or combination of concepts constituted at trade secret).

Marketing plans can be trade secrets. Compare Lumex, Inc. v. Highsmith, 919 F. Supp. 624, 629-30 (E.D.N.Y. 1996)(copycat or cloning industry; disclosure would retard goal of being first to market) with Hudson Hotels Corp. v. Choice Hotels Intern., 995 F.2d 1173, 1177 (2d Cir. 1993) (new product once launched is not secret); Western Medical Consultants, 80 F.3d 1331, 1337 (9th Cir. 1996) (marketing information acquired during employment has not protected; compiled from public sources and calling potential contacts listed in phonebook; Earthweb, 71 F. Supp. 2d at 315.

3. Customer lists. Until recently, it appeared that Washington courts either were inconsistent or only treated the part of a customer list not covered by the servicing representative as a trade secret. Compare J.L. Cooper & Co. v. Anchor Securities Co., 9 Wn.2d 45, 64-67 (1941) (former employee enjoined from soliciting customers if the names and addresses qualified for trade secret protection), and Davis & Co. v. Miller, 104 Wash. 444, 447-49 (1918) (top employee who took customer names “in his head” along with some specific information on their business, and knew where to get their addresses, misappropriated trade secrets when he used the information to compete) with City Ice & Cold Storage Co. v. Kinnee, 140 Wash. 381, 249 P. 782, 783 (1926) (identities and addresses of customers serviced by ice delivery salesman on previous route could be readily ascertained by following salesperson on rounds, and would not be treated as trade secrets). See also Ice Delivery Co of Spokane v. Davis, 157 Wash. 649, 243 P. 842, 845-46 (1956) (identities of customers established in known district, who could be identified readily by competitors and whose identities former employer did not attempt to keep confidential could not qualify as trade secrets. No amount of effort to conceal customer identities will result in trade secret treatment if the customers are listed in a public directory used by the trade). E.g., National School Studios v. Superior School Photo Serve., 40 Wn.2d 263,

242 P.2d 756 (1952) (former employee left student photography firm to join competitor, used published school directories to locate customers including those of former employer and violated eighteen-month non-compete; distinguishing Davis & Co. v. Miller based on employee's much lower level of responsibility and quality and intimacy of customer contacts, court found no trade secrets taken, refused injunction since non-compete period had elapsed and declined damage award because proof inadequate due to plaintiff's refusal to verify profit margin by disclosing costs).

Recent cases from other states involving customer lists include North Atlantic Instruments, Inc. v. Haber, 188 F.3d 38 (2d Cir. 1999) (preliminary injunction protecting employer's list of individual client contacts; applying New York law)

Some courts have permitted the use of customer lists by the departing employee to announce new employment, so long as no solicitation is made and no confidential information is otherwise used. E.g., American Credit Indemnity Company v. Sacks, 213 Cal. App. 3d 622, 636 (1989), and Wells v. Merrill Lynch, 919 F. Supp. 1047, 1053 (E.D. Ky. 1994) (“[T]his Court finds that a mere informational contact between the [former broker] and any former client does not constitute a ‘solicitation’ under the employment agreements. An information contact would consist of any written or oral contact that provides information about the [former broker’s] whereabouts and how they may be contacted”).

B. The “Inevitable Disclosure Doctrine” Sneaks into Washington.

In Nowogroski v. Rucker, 137 Wn.2d 427, 971 P.2d 936 (1999), the Washington Supreme Court affirmed an October 1997 court of appeals decision holding that former insurance salesmen who “memorized” trade secret customer information could be held liable under Washington’s Trade Secrets Act, even though they took no employer documents or copies with them.

Two of the three defendants in Nowogroski had never signed non-compete agreements, yet they were held liable for misappropriating customer information. Prior to defecting to set up a competing insurance business, the agents had memorized the identities of their top 50 customers. Their deliberate recording of trade secrets, albeit in “human” rather than computer memory for an unauthorized purpose saddled them with a sizable damage award (the plaintiff never sought to enjoin them).

While Nowogroski was not the first Washington opinion to suggest that trade secrets could be spirited away in the mind of an employee rather than a document or computer disk, (see Davis & Co. v. Miller, *supra*, 104 Wash. at 447-49), it eliminated any ambiguity created by recent contrary opinions in other states. Interestingly, just several months after the Court of Appeals, Division 1 opinion in Nowogroski v. Rucker, 88 Wn. App. 350 (1997), Division 3 issued an **unpublished** opinion dovetailing with Nowogroski, and following trade secret principles known as the “inevitable disclosure doctrine.”

In Solutec Corp. v. Agnew, 88 Wn.. App. 1067, 1997 Wash. App. LEXIS 2130 (1997), the court upheld a **six-year injunction** against two defendants who had previously been employed by plaintiff Solutec, which made edible waxes to coat apples before storage. One defendant was terminated by Solutec, and the other quit. The two former employees, who had

never signed trade secret or non-compete agreements, formed a competing business. Solutec wrote cease and desist correspondence to which the defendants responded with their belief that the edible wax formulas of Solutec were not trade secrets, but were generic products whose components were available from other sources. The appellate court was not fooled, observing that Solutec had taken pains like other companies to keep such formulas secret, and people without college degrees in chemistry or chemical engineering, like the defendants, could hardly be expected to develop high quality, competitive edible waxes like Solutec's. The defendants unsuccessfully challenged a finding that as employees with access to protected information they had a duty not to disclose or use it for their own purposes. There was some evidence that the defendants orally were told not to disclose the formulae and that formulae of competing companies were not available. The court further stated that the disclosure of the information was necessary for the two defendants to perform their jobs.

Although the Solutec v. Agnew opinion was not published, it demonstrates two things: (1) Washington courts are ready to embrace the "inevitable disclosure doctrine" and (2) trade secret misappropriation can present far graver prospects of unfair competition than a former employee's violation of a non-compete without accompanying trade secret piracy. Compare the six-year injunction in Solutec to the roughly two-year period typical of employee non-compete cases.

C. Development of the Inevitable Disclosure Doctrine.

The doctrine has evolved out of concern that a departing employee who takes a similar position with a competitor will "inevitably" use trade secrets of his or her former employer, even if the employee leaves behind all documents in whatever form, and never was required to sign a trade secret or non-compete agreement. A competing concern has always been the strong policy favoring the employee's right to work. The Davis & Co. v. Miller opinion relied at least in part on a presumption of inevitable disclosure. Below are selected cases tracing development from roughly 1960 to the present:

Welex Jet Services, Inc. v. Owen, 325 S.W.2d 856 (Tex. App. 1959) ("Confidential information secured by reason of fiduciary relationships may not be used or disclosed to [the proprietor's] detriment irrespective of an agreement not to do so." Id. 325 S.W.2d at 858. "On the other hand a former employee is not under an obligation to forego the exercise of his inventive powers, even if they were incited by knowledge gained in the performance of this contractual duty. The efficiency and skills he developed through that experience belong to him, not his former employer") Id. See also Fountain v. Hudson Cush-N-Foam Corp., 122 So. 2d 232 (Fla. App. 1960):

"Since [defendant employee's] employment by the [former employer] was the occasion for his acquiring knowledge of the [former employer's] trade secrets and manufacturing processes, it would seem logical to assume that his employment by a competitor . . . would eventually result in a disclosure of this information. C.f. Eastman Kodak Company v. Powers Film Products, 189 App. Div. 556, 179 N.Y.S. 325. In short, we think that his knowledge of the trade secrets would be so entwined with his employment as to render ineffective an injunction directed only toward a prevention of disclosure."

Fountain v. Hudson, 122 So. 2d at 234.

- ◆ BF Goodrich Co. v. Wohlgemuth, 117 Ohio App. 493, 192 N.E.2d 99 (1963): Defendant had worked at Goodrich, in charge of virtually all pressure space suit research. Defendant was offered a similar position at International Latex, a competitor in the pressure-space equipment field. **The court issued an injunction notwithstanding lack of evidence that Goodrich's secrets were being exploited by defendant and International Latex.** The court observed that Latex had an "Apollo" contract motivating Latex to acquire defendant's valuable experience at Goodrich. **Defendant's "attitude" showed that he was inclined to pirate.** He made comments to Goodrich personnel that "**loyalty and ethics had their price; insofar as [defendant] was concerned International Latex was paying the price . . . Once [defendant] was a member of the Latex team, he would expect to use all the knowledge he had to their benefit.**" 117 Ohio App. at 498, 192 Me. 2d at 104) (emphasis added). Thus a departing employee's "mental state" can be pivotal.
- ◆ E.I. duPont v. American Potash & Chemical Corp., 41 Del. Ch. 533, 200 A.2d 848, 141, U.S.P.Q. 447 (1964). (American Potash acknowledged duPont's trade secrets, the migrating employee's knowledge of such secrets and his signature of a non-disclosure agreement, but American Potash contended that a court could "not act to allay an employer's mere apprehension of injury or his unconfirmed fears." 41 Del. Ch. at 539, 200 A.2d at 432. In contrast to the mercenary comments by the departing employee in BF Goodrich v. Wohlgemuth, the duPont employee voiced ethical concerns to former duPont peers before leaving. Notwithstanding the employee's conscientious remarks foretelling efforts to isolate duPont trade secret information from other knowledge he possessed, and despite finding that disclosure to the new employer was not necessarily inevitable, it was "threatened" and the difference was a matter of degree. The duPont court observed that when drawing inferences from the surrounding circumstances, a court might "conclude that the facts warrant a finding of a threat of wrongful use or disclosure absent any direct evidence as to the employee's intentions such as existed in the Wohlgemuth case." 41 Del. Ch. at 547, 200 A.2d at 436).
- ◆ Allis-Chalmers v. Continental Aviation and Engineering Corp., 255 F. Supp. 645, 151 U.S.P.Q. 25 (E.D. Mich. 1966). A mechanical engineer who had worked on engines for Allis-Chalmers learned that a competitor, Continental Aviation, was seeking someone with his skills. His career languished at Allis-Chalmers, whereas Continental presented ample opportunity for advancement. Continental, however, had previously negotiated with Allis-Chalmers to acquire the very engines the engineer had been developing. The Allis-Chalmers engine at issue had produced a number of patent applications pending on novel features. When the

engineer departed, Allis-Chalmers sued its former engineer and Continental, and requested a preliminary injunction against both. Without any trade secret or non-compete agreement or even a misappropriation to support it, the court issued a narrow injunction. It allowed the engineer to perform any work desired by Continental except development of the particular type of engine pump the engineer had been working on at Allis-Chalmers. The court reasoned that there was an “inevitable and imminent danger of disclosure of Allis-Chalmers’ trade secrets . . . and use of these trade secrets by Continental. The virtual impossibility of [the engineer] performing all of his prospective duties for Continental to the best of his ability, without in effect giving it the benefit of Allis-Chalmers’ confidential information makes a simple injunction against disclosure and use of this information inadequate.” Allis-Chalmers v. Continental, 255 F. Supp. at 654.

- ◆ Emery Industries v. Cottier, 202 U.S.P.Q. 829 (S.D. Ohio 1978). An ozone generation equipment firm had recruited a competitor’s manager to replace a retiring president. Within weeks after the manager’s transfer, his employer sued and obtained a preliminary injunction because the manager had knowledge of his former employer’s trade secrets in the areas of business plans, ozone systems, financial information, scientific and technical information, customer lists, research, system components and “negative experience” (techniques and ideas that did not work, which, if bypassed, could save considerable time and expense). The injunction also may have been influenced by the dramatic increase in compensation to the manager, which hinted that the competitor was paying for more than the manager’s expertise. His “insider” knowledge apparently had considerable value as well. The court enjoined the manager from working for the competitor for one year but ordered the plaintiff to pay the manager’s salary for that year, averaging the old and new salaries together (\$40,000).
- ◆ Weed Eater, Inc. v. Dowling, 562 S.W.2d 898 (Tex. App. 1978). The Weed Eater case sprouted up because the defendant had signed a trade secret agreement as well as a one-year non-compete, so an injunction restrained him from “continuing in the employment of [his new employer] so long as his duties include[d] activities relating to . . . lawn and garden products.” One observation by the court was worth noting, “**Even in the best of good faith, [the departing employee] can hardly prevent his knowledge of his former employer’s confidential [flexible line trimmer production process] methods from showing up in his work . . .** [since the employee] has been employed by [his new employer] to supervise the production of a [trimmer head] device [the new employer] formerly purchased from Weed Eater.” WeedEater, 562 S.W.2d at 902.
- ◆ Air Products and Chemicals v. Johnson, 296 Pa. Super. 405, 442, A.2d 1114 (1982). Air Products and Liquid Air were the leading producers and distributors of industrial gases when Liquid Air recruited a petroleum

engineer who had been with Air Products for 15 years, had been a sales manager for his last 5 years and a vice president during the year preceding his departure. The recruited Air Products employee had signed a non-disclosure agreement. After his departure, Air Products obtained injunctive relief barring work in similar Liquid Air operations. **The injunction was affirmed on appeal even though Liquid Air had not inquired about the recruited employee's knowledge of trade secrets during the interview process, nor had the recruit ever offered to disclose Air Product's secrets to Liquid Air. To the contrary, Liquid Air had instructed the recruit to refrain from disclosing Air Products' confidential information. Moreover, the recruit did not have knowledge adequate to copy the plans** for any equipment or production processes of Air Products. Notwithstanding the thrust of this "good faith" evidence and prophylactic step by Liquid Air, the court parried with two key elements of the inevitable disclosure doctrine: (i) the recruit could not possibly have performed his new managerial duties without exploiting his knowledge of Air Products' confidential information and (ii) complying with an injunction that merely barred disclosure of Air Products' proprietary information would have been impossible. Air Products could justify an injunction by showing that disclosure was likely without having to suffer an injury first to demonstrate the need for emergency relief.

- ◆ FMC Corp v. Varco, Int'l, Inc., 677 F.2d 500 (5th Cir. 1982). Like Weed Eater, this opinion was not rooted in earlier decisions espousing the inevitable disclosure doctrine. It did, however, reach the same result. The Fifth Circuit prevented a former engineering manager who had signed a trade secret agreement not only from divulging information confidential to the former employer, but also from holding a position with his new employer that posed an "inherent threat of disclosure or use" of the prior employer's trade secrets. Id. 677 F.2d at 505.
- ◆ American Totalisator Co., Inc. v. Auto Tote Limited, 1983 WL 21374 (Del. Ch. 1983). Within a one-year period a racetrack wager-servicing firm lost first its president and then its vice president of finance to the same competitor. When the second executive left, two major bids for business were pending. Because detailed knowledge of the open bids would have given the recruiting competitor an unfair advantage, the court enjoined the second defecting executive from working in his new position.
- ◆ Union Carbide Corp. v. UGI Corp., 731 F.2d 1186 (5th Cir. 1984). Union Carbide and UGI (AmeriGas) competed in a small segment of their businesses. The defendant spent nearly 20 years at Union Carbide, ascending to Vice President and General Manager of Gas Products. He left that position to become President of AmeriGas, having signed a non-disclosure agreement with Union Carbide nearly 20 years earlier. The court did not enjoin defendant from serving as President of AmeriGas. However, it enjoined him from participating in AmeriGas projects in which Union Carbide would compete for industrial gas business and

itemized 14 types of strategic Union Carbide business information that it barred defendant from disclosing. Defendant apparently had attended AmeriGas management meetings designed to set the optimal price AmeriGas needed to offer in order to beat a Union Carbide bid. In this case, Union Carbide's internal economic information constituted the protected "trade secrets."

- ◆ Den-Tal-Ez, Inc. v. Siemens Corp., 389 Pa. Super. 219, 566 A.2d 1214 (1989). Siemens sought to acquire a dental apparatus facility in the United States. It targeted two businesses, Star and Midwest. Star insisted that Siemens enter a confidentiality agreement before gathering due diligence information for its acquisition. Star had advised Siemens that Star would not even discuss a sale to Siemens, if information provided to Siemens fell into the hands of Star competitors such as Midwest. Siemens denied that it was considering Midwest. When Star later learned of Siemens' misrepresentations, Star obtained preliminary injunctive relief culminating with a three-year bar against Siemens acquiring Midwest. The court found that although a disclosure by Siemens to Midwest might not be "inevitable," if Siemens purchased Midwest, there was at least a substantial threat of such disclosure. Siemens had been given full access to Star's confidential records, which were reviewed by many of the same Siemens personnel who investigated the Midwest acquisition and would participate in management of Midwest if acquired by Siemens. As this case demonstrates, not every inevitable disclosure case involves a migrating employee.
- ◆ Lamb-Weston, Inc. v. McCain Foods, Ltd., 941 F.2d 970, 973 (9th Cir. 1991). The defendant firm hired the same consultant who had built the plaintiff's device, and therefore should have known that the consultant would disclose trade secrets to defendant, a competitor of plaintiff, "[I]t would be difficult for a person developing the same technology for two clients not to use knowledge gained from the first project in producing the second." Id. 941 F.2d at 973. The court applied a "head start" damage analysis. Id. at 74-75.

As this case review demonstrates, a new employer may also be held liable for exploiting trade secrets from a recruit's former employer. E.g., Financial Programs, Inc. v. Falcon Financial Services, Inc., 371 F. Supp. 770, 781 (D. Or. 1974) (a "company which knowingly participates in, encourages and accepts the benefits of acts of unfair competition committed by a person against his former employer is liable for those acts").

D. The Premier "Inevitable Disclosure" Case – PepsiCo v. Redmond.

Some consider PepsiCo v. Redmond, 54 F.3d 1262 (7th Cir. 1995), to be the first federal circuit opinion deciding an inevitable disclosure claim under the Uniform Trade Secrets Act (which Illinois had adopted).

The defendant Redmond had worked for PepsiCo for 10 years, rising through the ranks to become the general manager of the business segment covering California, with annual revenues exceeding \$500 million (and providing 20% of Pepsi's profits in the United States). Consequently, Redmond had gained access to PepsiCo's annual operating and three-year strategic plans containing financial goals and strategies for manufacturing, production, marketing, packaging and distribution. This included especially vital pricing models for particular beverages in various markets. Such information could enable a competitor to underbid PepsiCo by the optimal margin – enough to win the business while otherwise maximizing margins. Redmond also knew intimately PepsiCo's "attack plans for specific markets and upcoming product innovations."

In 1994, Redmond left PepsiCo to join Quaker Oats as Chief Operating Officer, after making some misleading statements about his recruitment. PepsiCo sued, and secured a preliminary injunction that was upheld on appeal against Redmond and Quaker Oats, which supplied Gatorade and Snapple. The PepsiCo court "emphasized that the mere fact that a person assumed a similar position at a competitor does not, without more, make it 'inevitable that he will use or disclose . . . trade secret information.'" 54 F.3d at 1269. The court went on, however, to rule that, "[A] plaintiff may prove a claim of trade secret misappropriation by demonstrating that the defendant's new employment will inevitably lead him to rely on the plaintiff's trade secrets." Id. The PepsiCo court observed the "fierce competition" between PepsiCo and Quaker Oats, particularly in the "sports beverage" (Gatorade) and "new age beverage" (Snapple) product lines.

The PepsiCo injunction was based on a violation of the Illinois Trade Secrets Act, which derives from the same model as the Oregon and Washington Acts. The injunction resulted in a five-month ban on employment at Quaker Oats, with no compensation paid to Redmond by PepsiCo (in contrast to the ozone systems manager in Emery Industries v. Cottier).

E. Post-PepsiCo v. Redmond Cases. In the following cases, courts followed the inevitable disclosure doctrine to protect the former employer's trade secrets:

Southwestern Energy Co. v. Eickenhorst, 955 F. Supp. 1078 (W.D. Ark. 1997);
Merck & Co., Inc. v. Lyon, 941 F. Supp. 1443 (M.D.N.C. 1996);
LaCalhene, Inc. v. Spolyar, 938 F. Supp. 523 (W.D. Wis. 1996);
Uncle B's Bakery, Inc. v. O'Rourke, 920 F. Supp. 1405 (N.D. Iowa 1996);
Lumex, Inc. v. Highsmith, 919 F. Supp. 624 (E.D.N.Y. 1996);
Branson Ultrasonics Corp. v. Stratnam, 921 F. Supp. 909 (D. Conn. 1996);
Neveux v. Webcraft Technologies, 921 F. Supp. 1568 (E.D. Mich. 1996);
Ackerman v. Kimball Int'l, 652 N.E.2d 507 (Ind. S. Ct. 1995);
Novell, Inc. v. Timpanogos Research Group, Inc., 46 U.S.P.Q.2d (BNA) 1197 (Utah 1998)

In the following cases, courts refused to apply the inevitable disclosure doctrine:

Campbell Soup Co. v. Giles, 47 F.3d 467 (1st Cir. 1995)
Glaxo Inc. v. Novopharm, Ltd., 931 F. Supp. 1280 (E.D.N.C. 1996)
Avery Dennison Corp. v. UCB S.A., 1996 U.S. Dist. LEXIS 8682 (N.D. Ill. 1996)
Multiform Dessicants v. Sullivan, 1996 U.S. Dist. LEXIS 2802 (W.D.N.Y. 1996)

FMC Corp. v. Cyprus Foote Mineral Co., 899 F. Supp. 1477 (W.D.N.C. 1995)
International Paper Co. v. Suwyn, 966 F. Supp. 246 (S.D.N.Y. 1997)
APAC Teleservices, Inc. v. McRae, 985 F. Supp. 852 (N.D. Iowa 1997)
Carboline Co. v. Lebeck, 990 F. Supp. 762 (E.D. Mo. 1997)
Dulisse v. Park International Corp., 45 U.S.P.Q.2d (BNA) 1688 (N.D. Ill. 1998)
Bridgestone/Firestone, Inc. v. Lockhart, 1997 U.S. Dist. LEXIS 1995 (S.D. Ind. 1997)
Abbott Laboratories v. Chiron Corp., 1997 U.S. Dist. LEXIS 5596 (N.D. Ill. 1997)
Hoskins Mfg. Co. v. PMC Corp., 47 F. Supp. 2d 852 (E.D. Mich. 1999)
Archer Daniels Midland Co. v. Whitacre, 60 F. Supp. 2d 819, 1999 WL 592210 (C.D. Ill. 1999)
Computer Sciences Corp v. Computer Associates Intern., Inc., 1999 WL 675446 (C.D. 1999)

Campbell Soup v. Giles, 37 F.3d 467, provides an instructive analysis of the circumstances under which a court was not willing to enjoin a manager from taking a similar position with a competitor. Giles, a Campbell manager, left a 13 year career behind to join rival Pet, Inc., which made Progresso soups. Campbell contended that Giles would inevitably disclose key marketing information and a new super-secret product line under development. Giles convinced the court that the marketing information had already become public, and if not, he could not exploit it in his new position, since Pet's plans were already in effect. Giles "flatly denied any knowledge" of Campbell's secret project, affirmed his intention to abide by his confidentiality obligation and testified that Pet had "taken pains to ensure that [Giles] would [not disclose Campbell's secrets]." Id., 47 F.3d at 469.

Compare Electro Optical Indus., Inc. v. White, 76 Cal. App. 4th 653, 90 Cal. Rptr. 680 (2d Dist. Nov. 30, 1999)(adopting the inevitable disclosure rule that plaintiff must demonstrate as a matter of law that defendant would have inevitably make a disclosure, i.e., that it is "likely to result" or "impossible" not to result from his or her employment with the new employer); Maxxim Med., Inc. v. Michelson, 51 F. Supp. 2d 773 (S.D. Tex. 1999) (enjoining high level manager directly involved in pricing and marketing strategy, applying California law and following PepsiCo , rev'd on other grounds, 182 F.3d 915 (5th Cir. 1999) (unpublished) (lack of personal jurisdiction) **with** Computer Sciences Corp. v. Computer Assocs. Int'l, Inc., 1999 WL 675446 (C.D. Cal. August 12, 1999)(rejecting inevitable disclosure doctrine in California); Bayer Corp. v. Roche Molecular Sys., Inc., 72 F. Supp. 2d 1111 (N.D. Cal. Oct. 15, 1999)(ruling that inevitable disclosure theory to the extent that it creates a de facto covenant not to compete without a nontrivial showing of actual or threatened use or disclosure was inconsistent with California law prohibiting noncompete agreements); see also Cardinal Freight Carriers v. J.B. Hunt Transport Servs., Inc., 336 Ark. 143, 987 S.W.2d 642 (1999)(affirming injunction against employees who had signed nondisclosure agreements from conducting any new business with four customers; former employees knew profit margins, customer buying habits, future plans and strategic planning; these were nontechnical secrets very much like those in PepsiCo)

Problems with the inevitable disclosure doctrine include applying it to nonmanagerial employees and using it to circumvent any negotiated confidentiality/noncompete agreement, giving the employer a second bite of the apple. See EarthWeb v. Schlack, 71 F. Supp. 2d 299, 309-312 (S.D.N.Y. 1999)(discussing risks of inevitable disclosure doctrine and denying request for injunction, because there was weak proof on the strategic planning claim and websites disclosed some of the planning), rev'd in part, 2000 U.S. App. Lexis 1254 (2d Cir. Jan. 31, 2000)

(trial court failed to discuss why it failed to grant a preliminary injunction based upon confidentiality provision and trade secret provision after finding strategic content planning information and other items were a trade secret).

III. REMEDIES

A. Damages.

1. RCW 19.108.030 provides statutory remedies for misappropriation. In addition to injunctive relief, damages may be recovered in the form of (i) "actual loss caused by misappropriation" plus (ii) "unjust enrichment caused by misappropriation" but not already included in the "actual loss" component. See 4 Milgrim On Trade Secrets § 15.02 [3] for a discussion of damage issues in trade secret cases.

Washington did not adopt the provision in the Uniform Trade Secret Act expressly permitting the court to impose a reasonable royalty in lieu of damages. See Uniform Trade Secrets Act § 3, 14 U.L.A. at 455-59 (1990); cf. McCormick & Dodge Corp. v. ABC Management Sys., Inc., 222 U.S.P.Q. (BNA) (Whatcom Cy. Sup. Ct. 1983) (reasonable royalty for acts of unfair competition); see Vermont Microsystems, Inc. v. Autodesk, Inc., 138 F.3d 449 (2d Cir. 1998)(doubling reasonable royalty was improper double recovery); AT&T Communications v. Pacific Bell, 1998 U.S. Dist. LEXIS 13459 (Aug. 26, 1998) (By unlawfully accessing AT&T's electronic databases containing customer information called Total Billed Revenue ("TBR"), defendants used and misappropriated the data authorizing an award of a reasonable royalty under the UTSA. In calculating the amount of the royalty, the court stated that the factors cited in University Computing Co. v. Lyves-Youngstown Corp., 504 F.2d 518, 539 (5th Cir. 1974)--competitive postures, past prices for similar items, total value of secret to plaintiff, and nature and extent of defendant's intended use--were of little assistance. Instead, the court based the royalty upon the estimated cost for defendants to develop their own long distance electronic database. The court extrapolated from the number of customers whose data defendants improperly accessed to an estimated number of customers that defendants would have needed to contact using a mailing with a 10% response rate to obtain the data. The court arrived at \$1,520,000 royalty); accord, C&F Packing v. IBP, Inc., 1999 WL 102798 (N.D. Ill. Feb. 22, 1999)(\$10.9 million trade secret misappropriation jury verdict for precooked Italian sausage pizza topping); cf. Boeing, 108 Wn.2d at 63 (granting injunction against use of secrets as long as they exist and damages and rejected defendant claim for limited injunction plus royalty).

Generally, a victim may recover its actual loss and the wrongdoer's unjust enrichment only to the extent the latter is not taken into account in computing the former. Autodesk, 138 F.3d at 452; Timely Prods., Inc. v. Arron, 523 F.2d 288, 304 (2d Cir. 1975). Also trade secret/confidentiality damages should not be a double recovery to a breach of contract claim. See Abercombie v. Vannoy, 1999 Wash. App. LEXIS 565 (March 29, 1999) (unpublished) (tortious interference, trade secret and breach of confidentiality relationship subsumed into breach of contract damages). Whether a Washington court would permit such an alternative measure of damages or other models such as the before and after test or yard stick measures used in antitrust law is not clear.

If "willful and malicious misappropriation exists, **the court may award exemplary damages** not exceeding twice the amount of any award" of actual loss/unjust enrichment.

RCW 19.108.030(2) (emphasis added). A finding of willfulness is supported by evidence that defendants knew their actions to be of dubious legality and concealed their actions. Boeing, 108 Wn.2d at 62; McCormick & Dodge Corp. v. ABC Management Sys., Inc., 222 U.S.P.Q. (BNA) (Whatcom Cy. Sup. Ct. 1983) (intentional and wrongful interference with trade secret rights of others not done in good faith). Merely competing or asserting that the information is in the public domain does not rise to the level of willful and malicious. Agnew, 1997 Wash. App. LEXIS 2130; Roton Barrier, Inc. v. Stanley Works, 79 F.3d 1112, 1121 (Fed. Cir. 1996). A trial judge may choose not to award exemplary damages, even after a jury finding of willful and malicious misappropriation. C.f. McCarthy on Trademarks § 30.28[2][a], observing that Lanham Act Section 35 [15 U.S.C. § 1117(a)] gives courts “wide discretion” to modify, or not, when a jury’s finding of willful trademark infringement enables an increase up to treble damages.

2. Attorney fees. Under RCW 19.108.040 a plaintiff who proves a bad faith misappropriation or bad faith resistance by a defendant is entitled to attorney fees. Conversely, a defendant who proves a plaintiff has brought a misappropriation claim in bad faith is entitled to attorney fees. See Boeing v. Sierracin, supra, 108 Wn.2d 38 (award of \$3.27 million plus \$353,000 in attorney fees).

3. Classic battle of experts and causation issues. In Nowogroski v. Rucker, the Court of Appeals opinion addressed damages calculated and awarded by the trial court. Wn. App. at 360. The damage issue was not reviewed by the Washington Supreme Court, which merely observed that the Court of Appeals affirmed the trial court’s damage award based on a percentage of commissions earned by defendants established through expert testimony. No separate damages for unjust enrichment, exemplary damages or attorney fees were awarded.

The damage analysis in the Nowogroski court of appeals opinion, 88 Wn. App. at 360, illustrates what may be the more important feature of a non-compete, now that courts routinely award damages for trade secret misappropriation (even in the absence of non-compete or confidentiality agreements). The Nowogroski plaintiff was not entitled to unjust enrichment damages because the defendants proved that “most of the [former employer’s] clients would have followed [the defendants] even if [the clients] had not been solicited with trade secrets.” Id. at 360. Testimony of the plaintiff’s expert was rejected because it did not factor in this unrebutted testimony. This disappointing result for the plaintiff is analogous to the causation problem that the Perry v. Moran court discussed as a deficiency of a covenant not to solicit. 109 Wn.2d at 701.

4. Liquidated Damages.

Liquidated damages may be the appropriate remedy, rather than injunctive relief or other damages, if the amount fixed is a reasonable forecast of just compensation for the harm, and the damage caused is difficult to ascertain. Perry v. Moran, supra, 111 Wn.2d at 886-87; and Central Credit Collection Control Corp. v. Grayson, 7 Wn. App. 56, 60-62 (1972) (denying injunction but granting liquidated damages); Sheppard v. Blackstock Lumber Co., 85 Wn.2d 929 (remanding for determination of whether forfeiture of benefits was reasonable). Forfeiture of stock options may be a valid agreed remedy under the employer choice doctrine that the employee has the choice of preserving benefits by refraining from competition or risking forfeiture by exercising a right to compete. International Business Machines Corp. v. Martson,

37 F. Supp. 2d 613 (S.D.N.Y. 1999); accord, Campbell Soup Co. v. Desatnick, 58 F. Supp. 2d 477, 492 (D.N.J. 1999) (employee failed to show he was under duress when he signed noncompete agreement as a condition to continued eligibility for stock options); IBM v. Bajorek, 1999 U.S. App. LEXIS 21949 (9th Cir. 1999)(forfeiture provision did not violate California law).

5. “Head start” analysis. Some courts disgorge the profits a defendant gained from a “head start” resulting from trade secret misappropriation (and trade dress infringement or unfair competition under the Lanham Act). E.g., Lamb-Weston, Inc. v. McCain Foods, supra, 941 F.2d at 974-75.; and Taco Cabana Intern., Inc. v. Two Pesos, Inc., 932 F.2d 1113, 1126-28 (5th Cir. 1991) aff’d, 505 U.S. 763, 120 L.Ed.2d 615 (1992).

B. Equitable Relief.

1. Declaratory Judgment. RCW Ch. 7.24 (Uniform Declaratory Judgments Act) and 28 U.S.C. § 2201 permit a party to seek a court judgment establishing whether the conduct in question is lawful. Prospective defendants -- migrating employees and their new employers -- may attempt this as a “preemptive” strike to foreclose an injunction by trumpeting their “good faith” manifest in this civilized effort to proceed lawfully.

2. Temporary Restraining Orders and Preliminary Injunctions. TROs and Preliminary Injunctions are frequently used by courts to protect trade secrets and enforce non-compete agreements, perhaps too readily. Under RCW Chapter 19.108, a plaintiff may protect trade secrets by injunction without having to prove “irreparable harm,” at least in the context of obtaining a permanent injunction after trial. Boeing Co. v. Sierracin Corp., 108 Wn.2d 38, 62-63, 738 P.2d 665 (1987). Generally, under Washington law, before a preliminary injunction will be issued, the plaintiff must establish (1) likelihood of success on the merits, (2) a well-grounded fear of immediate invasion of its rights and (3) actual and substantial injury arising from defendant’s conduct. 1 Barker & Scharf, Washington Practice § 12.2, p. 196. If the harm has already occurred, “there must exist a cognizable danger of recurrent” injury. State v. Ralph Williams’ North West Chrysler Plymouth, Inc., 87 Wn.2d 298, 313, 522 P.2d 1038 (1976), appeal dismissed, 430 U.S. 952 (1977).

In federal court, the Ninth Circuit has two standards for granting injunctive relief: either (1) a combination of probable success on the merits and the possibility of irreparable injury, or (2) that serious questions are raised and the balance of hardships tips sharply in plaintiff’s favor. Metro Publishing, Ltd. v. San Jose Mercury News, 987 F.2d 637 (9th Cir. 1993); Accord, Radical Prods., Inc. v. Sundays Distrib., 821 F. Supp. 648, 650 (W.D. Wash. 1992).

There are some issues relating to what extent an injunction to comply with CR 65 must identify third parties that are off limits. American Red Cross v. Palm Beach Blood Bank, Inc., 143 F.3d 1407, 1411-12 (11th Cir. 1998) (injunction prohibiting contacting or soliciting donations from any donor listed in the Red Cross’s donation list violated CR 65(d)’s requirement that an ordinary person reading the order should be able to ascertain from the document itself which members of the public are off-limits for recruitment efforts); cf. Lewis Pac. Ass’n, 50 Wn.2d at 769, 777 (ruling three-year injunction preventing defendants from soliciting and selling to about 1300 individuals was overly broad and penalized former employee for past misconduct violating duty of loyalty).

A defendant should urge a court issuing an injunction to limit the duration to the period of time the defendant otherwise would have needed to discover the protected trade secrets lawfully through independent development or reverse engineering. K-2 Ski Co. v. Head Ski Co., Inc., 506 F.2d 471 (9th Cir. 1974). One unpublished Washington decision affirmed a permanent injunction prohibiting defendants from using the protected trade secrets and requiring them to provide a sample of their production if they competed. Agnew, 1997 Wash. App. LEXIS 2130; Lamb v. Weston, Inc. v. McCain Foods, Ltd., 941 F.2d 970, 975 (9th Cir. 1991)(noting that under Oregon law an injunction may be continued for an additional reasonable period of time in order to eliminate the commercial advantage that otherwise would accrue from the misappropriation).

To avoid injunctive relief altogether, a defendant may argue the following:

a. The former employer's material breach of employment agreement excuses non-compete obligations. E.g., Rao v. Rao, 718 F.2d 214, 219 (7th Cir. 1983), and Stanley Education Methods, Inc. v. Becker CPA Review Course, Inc., 536 F.2d 86, 92 (5th Cir. 1976).

b. Employer estoppel/waiver/laches or the statute of limitations bars enforcement of non-compete. E.g., Code v. London, 27 Wn.2d 279, 283 (1947), and Royal Air Properties, Inc. v. Smith, 333 F.2d 568, 570 (9th Cir. 1964); McLeod v. Northwest Alloys, Inc., 90 Wn. App. 30, 969 P.2d 1066 (1998) (action accrues for limitations purposes generally on the date of unauthorized disclosure if that date can be readily determined and claimant was aware of disclosure; but if the date of an unauthorized disclosure is not immediately discovered, then there is accrual when the claimant knew or should have known of the disclosure; and if the disclosure is authorized or the date of disclosure is not known, then the facts related to the use of the trade secret will be determinative). Mindful of the doctrines of laches, waiver and estoppel, courts will issue injunctive relief, notwithstanding some delay by plaintiff. E.g., Formax, Inc. v. Hostert, 841 F.2d at 392 (familiarity of vendors and customers with alleged confidential information, uncertainty about guarding alleged secrets closely enough, and delay in seeking relief undercut any success possible on claim seeking injunctive relief): Cortland Line Co. v. Vincent, 48 U.S.P.Q.2d (BNA) 1684 (N.D.N.Y. 1998) (six month delay vitiated claim of irreparable injury); Ocean Garden, Inc. v. Marketrade Co., Inc., 953 F.2d 500 (9th Cir. 1991) (preliminary injunction granted even though plaintiff filed suit five months after learning of defendant's plan to infringe trademark, then asked for injunction six months after filing suit).

c. The employer's "unclean hands" bar enforcement of non-compete or trade secret misappropriation. E.g., McAlpine v. Miller, 51 Wn.2d 536, 541, 319 P.2d 1093 (1958) (barring a party from imposing specific performance of one contractual duty while violating another), and Charles A. Wright & Arthur R. Miller, Federal Practice and Procedure § 2946 (1973 & supp. 1982). Some cases hold that the employer's unclean hands must relate to the noncompete agreement. See International Business Machines Corp. v. Martson, 37 F. Supp. 2d 613 (S.D.N.Y. 1999); UARCO, Inc. v. Lam, 18 F. Supp. 2d 1116 (D. Hawaii 1998) (in granting a preliminary injunction enforcing two of these agreements, the district court ruled that an alleged no-hire agreement between competing employers did not constitute unclean hands barring an injunction, due to the uncertainty about whether such agreements are illegal and the lack of direct injury to the defendants resulting from the allegedly illegal no-hire agreement). Unfair restraint might violate Washington's Unfair Business Practices/Consumer Protection Act, RCW Chap. 19.86, just as surely as the defecting employee/competitor's piracy of secrets might, because the Act protects competitors as well as consumers, at least when consumer confusion is an issue. E.g., Nordstrom Inc. v. Tampourlis, 107 Wn.2d 735, 733 P.2d 208 (1987).

d. Subsequent contract. A termination or severance contract may supersede a prior noncompete or confidentiality agreement. See Carboline Co. v. Lebeck, 990 F. Supp. 762, 766 (E.D. Mo. 1997) (denying preliminary injunction; employment termination agreement superseded noncompete agreement even though the employment agreement was not specifically mentioned)

e. Arbitration. Even when a trade secrets agreement contains an arbitration clause an injunction may be procured to “preserve the status quo ante” pending a hearing on the merits. E.g., PMS Distrib. Co. v. Huber & Suhner, A.G., 863 F.2d 639 (9th Cir. 1988). The benefit of arbitration is a speedy determination; the detriment a final decision that is difficult to challenge. Noss v. Klecka, 1999 Wash. App. LEXIS 394 (March 1, 1999) (unpublished) (affirming arbitration award ruling noncompete was valid, reasonable, and enforceable).

f. Prior Restraint/First Amendment. Ford Motor Co. v. Lane, 67 F. Supp 2d 745 (E.D. Mich. 1999); Food Lion, Inc. v. Capital Cities/ABC, Inc., 194 F.3d 505 (4th Cir. 1999) (first amendment did not bar recovery for fraud and breach of loyalty but chain could not recover for damages resulting from broadcast of news program; no claim under UTPA because not acts in commerce)

3. Variations on standard injunctions against disclosure or employment by competitor.

Given the broad equity powers of a court evaluating injunctive relief, let alone sculpting the boundaries of non-competes, all manner of wrinkles on injunctions are possible. For example, a court might permit a defendant who allegedly misappropriated trade secrets or violated a non-compete to go forward, but only on the condition that the defendant impound some percentage of its resulting revenues until trial.

Some courts have required “Surrender or Destruction of Plans, Copies, Machines, Etc.” 4 Milgrim on Trade Secrets § 15.02 [4] (collecting sample cases).

The Emery v. Cottier court used a conceptually appealing but rarely followed approach -- enjoining the former employee from assuming the new position with a close competitor but requiring the former employer to pay salary. Likewise a court could allow a defendant to proceed, but on the condition that defendant post a bond sufficient to cover plaintiff's reasonably projected damages.

Many injunctions “quarantine” the employee -- that is, they permit work for the competitor, but not in specified positions or only subject to specified restraints. E.g., Allis-Chalmers and Union Carbide, supra.

Bonds are sometimes waived or are nominal. Accord, International Controls Corp. v. Vesco, 490 F.2d 1334, 1356 (2nd Cir.), cert. denied, 417 U.S. 932 (1974) (no proof of likelihood of harm to party enjoined); Flag Fables, Inc. v. Jean Ann's Country Flags & Crafts, Inc., 753 F. Supp. 1077 (D. Mass. 1990); Denowitz v. Information Television Network, 717 So.2d 1106 (Fla. App. 1998) (reversible error to enter TRO prohibiting use of trade secrets and solicitation of clients without requiring a bond). Some contracts contain express agreements not to require a

bond to be posted and such agreements may be enforced. See Diaz v. John Adcock Ins. Agency, 729 So.2d 465, 466-67 (Fla. App. 1999).

The black letter law is that federal law determines what costs and damages are recoverable when a federal court issues a bond pursuant to CR 65. See Fireman's Fund Ins. Co. v. S.E.K. Constr. Co., 436 F.2d 1345, 1351 (10th Cir. 1971).

In Nintendo of Am., Inc. v. Lewis Galoob Toys, Inc., 16 F.3d 1032, 1036-38 (9th Cir. 1994), the Ninth Circuit in a copyright infringement case stated that the circuit had not yet defined "wrongful enjoinder" in the context of CR 65(c)'s requirement of a security/bond "for the payment of costs and damages as may be incurred or suffered by any party who is found to have been wrongfully enjoined or restrained." The Ninth Circuit then held:

We hold today that a party has been wrongfully enjoined within the meaning of Rule 65(c) when it turns out the party enjoined had the right all along to do what it was enjoined from doing. See Blumenthal v. Merrill Lynch, Pierce, Fenner & Smith, Inc., 910 F.2d 1049, 1054 (2d Cir. 1990) . . .

16 F.3d at 1036. (Omitting footnote and parenthetical). The Ninth Circuit also adopted a rebuttable presumption that a wrongfully enjoined party is entitled to have the bond executed and recoverable provable damages up to the bond amount. 16 F.3d at 1036. Good faith does not rebut the presumption. As the Ninth Circuit stated in Nintendo, good faith is expected of all litigants, if a party seeking an injunction flunks the good faith test, then the presumption of enforcement against the bond "congeals virtually into a rock." Nintendo, 16 F.3d at 1037, quoting National Kidney Patients Ass'n v. Sullivan, 294 U.S. App. D.C. 269, 958 F.2d 1127, 1134 (D. C. Cir. 1992).

In Blumenthal v. Merrill Lynch, Pierce, Fenner & Smith, 910 F.2d at 1054-56, the Second Circuit ruled that a preliminary injunction pending arbitration was wrongful when the arbitrators' final award was that the representatives had the right to do business with the customers which had been served at defendants' former firm and were entitled to return of their customer records.

Washington courts follow the majority rule that recovery is limited to the amount of the bond, absent a showing that the complaint obtained the TRO or preliminary injunction maliciously or in bad faith. Fisher v. Parkview Properties, 71 Wn. App. 468, 478-79, 859 P.2d 77 (1993).

4. Policy Considerations.

Sometimes, the outcome of an injunction proceeding depends on how a court weighs the public interest. E.g., Mailman, Ross, Toves & Shapiro v. Edelson, 444 A.2d 75, 79, 183 N.J. Super. 434 (N.J. Super. 1982) ("A covenant which attempts to 'protect' the clients from contact with the former employee operates to restrict the solicitation rights of the public. Such a covenant, in effect, binds those who were never parties to the agreement.") and Merrill Lynch v. E.F. Hutton & Co., 403 F. Supp. 336, 345 (E.D. Mich. 1975) ("Defendants stressed the importance of open access to brokerage services and have identified a specific group, clients, which suffer from the grant of injunctive relief. It would in the view of this Court, be unfair to,

in effect, deprive clients who wish to use the services of the individual defendants, of their counsel. . . Therefore, the interest in free access to services appears to be overriding”). Of course, rulings such as these are the exception. The general rule remains, non-competes are enforced and secrets are protected.