

For The Defense

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Wear a White Hat

By Scott F. Gibson

Work with your client to develop and implement appropriate strategies to protect valuable ideas, innovations, information and relationships.

Protect Your Intangible Assets

If you are going to help your clients build and maintain growing, thriving businesses, you must help them secure and protect their intangible assets. Ideas and innovations are a company's most valuable resources,

with as much as 85 percent of a company's value attributable to its intangible assets. *New Ways Needed to Assess New Economy*, LOS ANGELES TIMES, Nov. 13, 2000. Those intangible assets include not only the traditional forms of intellectual property—patents, trademarks, and copyrights—but also a company's trade secrets, confidential information, and valuable relationships.

At the same time that intangible assets have become pivotal to the financial viability of companies, employees have become more mobile, regularly changing jobs, and sometimes careers, multiple times during their working years. Technological advances have made it increasingly easier for dishonest employees to walk off with trade secrets and other valuable intangible property, often unnoticed by the companies that they fleece.

You must help your clients develop ongoing, comprehensive plans to protect their intangible assets. This type of plan must account for the possibility that you might be compelled to take legal action to pro-

tect the intangibles. How can you increase the likelihood that a court will grant the injunctive relief that your client will need? The answer is simple: wear a white hat.

Wear a White Hat

Watch an old-time black and white Western, and you'll quickly discern the "good guys" from the "bad guys." The "good guys" invariably wear white hats, while, for some unexplained reason, the "bad guys" feel compelled to wear black hats. When a new character rides onto the screen, the color of his hat reveals the secret intentions of his heart.

Litigation over misappropriated intangible assets will almost always involve a preliminary injunction hearing. Preliminary injunction hearings are expensive, exhausting, and emotionally draining. In a very short time, you must marshal evidence and convince a judge that your cause is just.

Because these proceedings are expedited, judges search for clues on how they should rule. They are, in essence, trying to determine whether your client is wearing a black hat or a white hat. Your job as counsel is to make sure that your client wears a white hat.

If you want a judge to perceive your client as a "good guy," you cannot simply



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mosey into court on the day of your hearing and hope that you can find a white hat to wear. Nor can you rely on being able to portray your opponent's hat as a darker shade of gray than your own. If your client starts looking for a white hat after an employee leaves with sensitive business information, it will be too late. Your client must begin immediately to acquire a white hat, wear the white hat, and make sure that her white hat is always clean. "Good guys" wear white hats all the time.

"White Hats" remember the Golden Rule, which is: "do unto others as you would have them do unto you." Then they behave consistently with that advice. While many factors help determine whether your client is a White Hat, your plan should consider the following 10 points:

- Draft narrow restrictions.
- Tailor restrictions specifically for your client's business.
- One size does not fit all.
- Disclose restrictive covenants in interviews.
- Give adequate time to consider restrictive covenants.
- Offer additional consideration to current employees.
- Don't overreach.
- Help your client create a culture of confidentiality.
- Implement immediately.
- Enforce consistently.

No matter the law of your jurisdiction, the principles underlying these strategies will help strengthen the perception that your client is a White Hat and increase the chances of protecting his intangible assets.

The Law of Restrictive Covenants and Trade Secrets

Before discussing these strategies, let's first briefly review the law of restrictive covenants and trade secrets. Restrictive covenants generally take three different forms. *Covenants not to compete* prohibit former employees from engaging in a specified occupation or profession in a particular area for a limited period. *Non-solicitation agreements* prevent former employees from soliciting customers or former colleagues for a specified period. *Confidentiality agreements* protect an employer's confidential information or trade secrets from improper disclosure.

Covenants not to compete violate fundamental principles of free enterprise and, therefore, generally all jurisdictions disfavor them. Nonetheless, most states will enforce narrowly tailored covenants. California is the most notable exception to the general rule of enforceability. Under California law covenants not to compete constitute an unreasonable restraint on trade that violates public policy. CAL. BUS. & PROF. CODE §16600 (2008).

The law of non-compete agreements varies substantially from jurisdiction to jurisdiction, so you need to review the law of your state in establishing the details of a plan. A recent publication of DRI, *Trade Secrets and Agreements Not to Compete: A State-by-State Compendium*, is a great resource for starting your research. Though the law varies substantially, certain basic principles apply in most states. For instance, "To be valid, the covenant must be reasonably limited in scope (time and place), designed to protect a legitimate interest of the employer, supported by valid consideration, and not harmful to the public." Mark Filipp, *Covenants Not to Compete* §2.01, 2-3 (3d ed.) 2008. Courts strictly construe covenants not to compete against an employer, and generally courts will only enforce them if the restrictions are reasonable. *See, e.g., Pathfinder Communications Corp. v. Macy*, 795 N.E.2d 1103, 1109 (Ind. App. 2003).

Designating certain information as a trade secret protects useful business information. The landmark decision *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 94 S. Ct. 1879 (1974) held that neither the Patent Clause of the Constitution nor federal patent law preempted trade secret protection for patentable or unpatentable information. In 1979, the National Conference of Commissioners on Uniform State Law approved the Uniform Trade Secrets Act (UTSA) as a means of protecting valuable intellectual property. Currently, 45 states and the District of Columbia have adopted statutes based on the UTSA. In addition, Massachusetts protects trade secrets through statutory schemes that are not based on the UTSA. New Jersey, New York, Texas, and Wyoming protect trade secrets under the common law.

A trade secret "is one of the most elusive and difficult concepts in the law to define."

Lear Siegler, Inc. v. Ark Ell Springs, Inc., 569 F.2d 286, 288 (5th Cir. 1978). As noted by one court, "In many cases, the question of whether certain information constitutes a trade secret ordinarily is best resolved by a fact finder after full presentation of evidence from each side." *Carbo Ceramics, Inc. v. Keefe*, 2006 WL 197340, at **3 n.1 (quoting *Lear Siegler*, 569 F.2d at 289).

Information... may

lose its status as a trade secret if its owner has not taken "reasonable" steps to protect its secrecy.

The law provides a broad framework for determining whether information qualifies as a trade secret. Under the UTSA, a trade secret is defined as

information, including a formula, pattern, compilation, program device, method, technique, or process, that: (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

Uniform Trade Secrets Act §1(4) (emphasis added).

This definition describes two critical characteristics of a trade secret. First, as the term suggests, information that is commonly known or used in an industry does not qualify for protection as a trade secret. Rather, "a substantial element of secrecy must exist, so that, except by the use of improper means, there would be difficulty in acquiring the information." Restatement (First) of Torts, §757 *comment b*. Courts frequently consider a number of factors in determining whether information is a trade secret, including those factors first identified in the Restatement: (1) the extent to which the information is known outside

of his business; (2) the extent to which it is known by employees and others involved in his business; (3) the extent of the measures taken by him to guard the secrecy of the information; (4) the value of the information to him and to his competitors; (5) the amount of effort or money expended by him in developing the information; and (6) the ease or difficulty with which the

If you want an enforceable restriction, you must change the way that you think about negotiation.

information could be properly acquired or duplicated by others. *See, e.g., Learning Curve Toys v. Playwood Toys*, 342 F.3d 714, *722 (7th Cir. 2003) (using the six factors in comment b to Restatement §757 to determine whether a trade secret existed under the Illinois Trade Secret Act).

Second, an owner must have taken appropriate steps to protect the secrecy of the information. In other words, information that otherwise might constitute a trade secret—information that provides an economic benefit to its owner because it is not commonly known in the industry—may lose its status as a trade secret if its owner has not taken “reasonable” steps to protect its secrecy. This requirement is yet an additional reason why your client must act as a White Hat in protecting its intangible assets.

Although most states have enacted the UTSA, you still need to consult the law of your state in assisting your clients, as “the trade secret protection granted in each state is far from uniform relative to the other states. This often leads to the result that the ability to recover for theft of a trade secret becomes a choice of law or contract interpretation question.” J. Derek Mason, Gerald J. Mossinghoff, & David A. Oblon, *The Economic Espionage Act: Federal Protection for Corporate Trade Secrets*, 15 *COMPUTER LAW*, 14, 15 (Mar. 1999).

With these general principles in mind, let’s turn to the 10 strategies to help your client wear a white hat.

Draft Narrow Restrictions

One of the surest indicators of the color of your client’s hat is the scope of restrictive covenants entered into with employees. White Hats have narrowly drafted restrictions, closely tailored to their legitimate business interests. Black Hats seek expansive restrictions. White Hats recognize that employees need to make a living after they leave. Black Hats are oblivious to anything other than their own selfish interests. White Hats focus on unfair competition. Black Hats want to stifle competition.

If you want an enforceable restriction, you must change the way that you think about negotiation. Stand your thinking on its head. Rather than trying to grab as much as possible, secure the minimum that you need to protect the business’ interests. Think small.

Americans tend to believe in the value of free enterprise and fair competition. When you ask a judge to enforce your restrictive covenants and prevent someone from competing with your client, you must show her that your restriction is fair, reasonable, and limited. If your restriction is too broad, your client risks being considered a Black Hat. A Black Hat is so obsessed with protecting everything that he ends up protecting nothing.

Before you draft a restrictive covenant, ask yourself the following questions:

- What specifically does my client want to protect?
- Why would it be unfair for this employee to compete in the protected area?
- Does my client really need this restriction? Why?
- What is the smallest restriction that adequately protects my client’s business interests?

Don’t accept the first answer that pops into your head, or that your client gives you, but instead refine your initial responses continuously until you have the narrowest answer possible. Document your answers to these questions, and develop a plan for protecting your client’s intangible assets using these narrow answers. If you eventually have to protect your client’s intangible assets in court, you will have a well-conceived plan that will assist you in obtaining injunctive relief.

Wear a White Hat. Draft narrow restrictions.

Tailor Restrictions Specifically to the Business

Your client’s business is unique. No one does what she does the way that she does it. She has developed a specialized niche for her services, and serves her customers in her unique, individualized way. Why, then, would you use a standard agreement to try to protect that business?

Your client’s unique business requires a carefully tailored plan based on the on the specific needs of that business. Your efforts to protect the business must be as unique as the business itself. Tailoring appropriate restrictions and policies requires a company and its counsel to carefully consider the following questions:

What unique and valuable information is used in the business? That valuable information may include customer lists, research and development, marketing plans, or other information that helps your client’s business prosper. Specifically identify your information, and then take proper steps to protect it. Does the information qualify for trade secret protection? If so, what are you doing to protect and secure the information as a trade secret?

Who has access to that unique and valuable information? Your client’s employees have different levels of access to the company’s confidential information. Tailor protections based on the level of access that each employee has to that information.

What steps can you take to protect that unique and valuable information? Do you need to protect trade secrets? What role should Non-solicitation agreements play in your plan? Is a non-compete agreement appropriate for some of your employees? What aspects of physical security do you need to implement in the business? Are you adequately training employees on how to protect and secure the company’s valuable information?

How often should you review and update a plan? Remember that nothing remains constant. Employees take on new responsibilities and duties over time. Regularly review a plan to ensure that it still protects your client’s business given current needs and situations.

One Size Does Not Fit All

Clothing manufacturers have for years perpetrated the lie that, for at least some types

of garments, one-size-fits-all. Look around at the people you know, and you will agree that the “one-size-fits-all” proposition is laughable.

People come in many different sizes and proportions: tall and short, lean and plump, and everything in between. My son and I are about the same height, but if I try to squeeze into a pair of his pants, I will burst the seams. My daughter is drowning in cloth if she puts on one of my shirts. One size does not fit all.

Most people know better than to wear shorts and flip-flops to a black tie event. Nonetheless, those same people often mistakenly try to shoehorn all their employees into signing restrictive covenants that they got from a neighbor or, even worse, from the Internet. These short-sighted efforts are the equivalent of trying to fit a 350-pound defensive tackle into a size 2 sundress. It's not a pretty sight.

White Hats know that they must specifically draft restrictive covenants for particular employees or positions. A skilled tailor uses no more and no less material than is needed to properly do the job. Counsel for a White Hat carefully tailors a restrictive covenant to fit a particular position. Counsel may have to prepare several different types of restrictive agreements for a client, but a client's employees will have restrictive covenants that fit them like well-tailored suits.

Black Hats, on the other hand, assume that one-size-fits-all. Not wanting to leave anything uncovered, Black Hats add overly broad provisions and needless verbiage to a restrictive covenant, reasoning that if a non-compete agreement is good enough for a CEO, it's good enough for a rookie sales representative. This type of drafting, figuratively speaking, is similar to giving a 5XL shirt to a five-year-old child. One size does not fit all.

Tell Applicants About Restrictive Covenants

In your efforts to protect your client's intangible assets, you cannot forget that you are dealing with real people—often a company's employees—on the other side of the table. The way you work with them plays a big part in determining whether your client wears a black hat or a white hat.

Black Hats focus only on their objective: get documents restricting employee

conduct signed. They drop restrictive covenants and trade secret agreements on their employees unexpectedly and compel employees to sign them without giving employees time to review these documents with counsel. Black Hats see nothing wrong with dumping stacks of oppressive restrictive covenants on new employees during their first day on the job and telling them that they have to sign these documents as a condition of employment. These employers are not concerned that employees may have quit other jobs, sold their homes, or moved their families from other states to accept employment with these new enterprises.

White Hats, on the other hand, make fairness and honesty part of their companies' endeavors to protect intangible assets. They live the Golden Rule, and do unto others as they would have others do unto them. White Hats inform prospective employees in interviews that they will be required to sign restrictive covenants, and give the applicants copies of documents that they will be required to sign. They encourage applicants to seek the advice of legal counsel and, in appropriate circumstances, will even tailor the scope of a restrictive covenant to meet an applicant's specific concerns.

White Hats treat people on the other side of the table fairly. They do so first and foremost because it is the right thing to do. White Hats know, however, that at some point, they may need to defend the scope of their agreements and the manner in which they were implemented. It is much easier to defend those agreements when they have been procured fairly and honorably.

Wear a white hat. Encourage your clients to tell prospective employees that they will be required to sign restrictive covenants, then implement those agreements using policies that are fair to the people on both sides of the table.

Give Adequate Time to Consider Restrictive Covenants

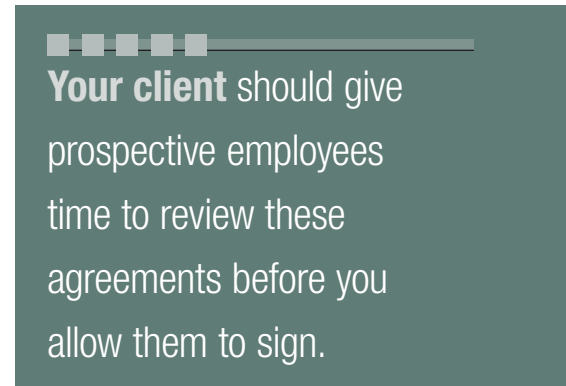
Imagine that you have just started a new job with a great company. You've quit your previous job, sold your home, and moved hundreds of miles away from your family and friends to accept this fabulous opportunity.

Now imagine that on your first day at work the director of human resources plops

the company's “standard,” five-page, non-compete agreement in front of you and tells you that you must agree not to work in your industry for three years if you should ever leave the company. What is your initial reaction?

Yeah, I thought so. That's what judges think, too.

Principles of free enterprise dictate that



Your client should give prospective employees time to review these agreements before you allow them to sign.

your clients are subject to the challenges of fair competition. You can, however, help your client protect her business from unfair competition. The way that she goes about protecting the business determines whether she ultimately will be protected.

Black Hats think only about protecting their interests and give no thought to the effects of restrictions placed on employees. Their only concern is that employees sign restrictive covenants, and the sooner the better.

White Hats, on the other hand, realize that human beings sit on the other side of the table. Human beings have parents, spouses, children, and friends. They have personal and professional goals, choices and preferences, wants and needs. In short, they have objectives that may not match your client's own.

Courtesy dictates that your client gives employees the opportunity to thoughtfully consider the consequences, risks, and rewards before they sign restrictive covenants. They should be encouraged to review them with the important people in their lives and with legal counsel. In appropriate circumstances—for example, if an employee brings a book of business to a company—the company may need to revise its “standard” agreement to accommodate the particular employee's situation.

Counsel your client to provide prospective employees with a copy of the agreement that they are expected to sign when your client extends job offers. Your client should give prospective employees time to review these agreements before you allow them to sign. Review important portions of the agreement with them, and ensure that their questions are answered before they sign.

By crying “trade secret”
when no secret exists,
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valuable information.

When your client gives employees and prospective employees adequate time to review and consider restrictive covenants, the employees more willingly accept these agreements. Your client will develop better agreements from the give and take involved in negotiations. Further, you will increase the likelihood that a court will enforce the agreement.

Don’t Overreach

Remember the story about the boy who cried wolf? He tried to manipulate others by falsely claiming that a wolf threatened the town. Though the townspeople were fooled the first few times that he raised the fraudulent alarm, they quickly became weary of his charade and began ignoring him. When he faced a true crisis, no one paid any attention to him.

Black Hats cry wolf incessantly. In the world of the Black Hats, everything about their business is “Confidential,” with a capital “C,” and as such, subject to protection. Give them a “Confidential” stamp and an ink pad, and they can amuse themselves for hours, maybe even days. No piece of information is too insignificant to avoid their grasp.

The truth is that while your client’s business may rely on vast amounts of important

information, much of that information does not meet the legal definition of trade secret or confidential information. White Hats recognize that most of their information—though important—does not warrant protection as a trade secret or as confidential information. While Black Hats try to identify as much as they can as warranting trade secret protection, White Hats realize that they need to focus on the information that they can and must truly protect.

Before you identify something as “confidential” or a “trade secret,” take care to specifically identify why the information should be protected. Don’t overreach. Identify with your client why this information should be protected. Thoroughly document your efforts, and take appropriate steps to secure and protect the information.

If you cannot articulate a coherent reason why information is subject to protection, you won’t be able to identify a reason when the information has walked out the door with a client’s former employee. If, when you pitch your case to a judge, you cannot meet your burden of proof, you will draw comparisons between yourself and the boy who cried wolf. By crying “trade secret” when no secret exists, you will annoy a judge and minimize the importance of your client’s truly valuable information.

Not everything is confidential or a trade secret. Carefully and specifically identify the true trade secrets and confidential information in your client’s business, then work aggressively and relentlessly to protect that information.

Create a Culture of Confidentiality

Does your client expect others to secure her trade secrets, protect her patents, and guard her goodwill? Then your client must respect the intangible assets of others.

Even if you have implemented sound policies and procedures to protect your client’s intangible assets, those policies will fail if your client does not have buy-in from his employees. You can talk a good game about protecting intangible assets, but the employees will take their cue from your client’s actions, not his words. Your client must walk the walk, and not just talk the talk.

If your client blathers on about the importance of her trade secrets and confidential information, then tries to hack into

a competitor’s computer network to gain a competitive advantage, her employees will recognize her as a charlatan and a fraud. That client’s intangible assets will receive no more respect than she will assign to the assets of others.

Help your client create a “culture of confidentiality” that will reverberate the length and breadth of the company. Help your client conduct himself in a principled and honorable manner at all times. Compete fairly. Speak truthfully, even when it is a disadvantage to do so. Don’t poach. Be respectful and courteous. Make all corners square. Do the right thing, all the time. Businesses that behave ethically have the moral authority to insist that their employees do likewise.

Not only is it the right thing to do, your client will be glad that she did if you have to sue to protect her intangible assets. Imagine how difficult it would be to convince a judge to enforce a non-compete agreement against a former employee who testifies that your client regularly sought to circumvent her competitors’ restrictive covenants. The judge would, with good reason, proclaim your client a Black Hat unworthy of judicial protection.

Implement Immediately

Protecting intangible assets is an ongoing, continuous job. Your client cannot simply draft a plan and leave it in his top, desk drawer. If he does not implement the plan, it will all be for naught.

But when is that plan ready for you client to implement? The longer I think about a plan, the more detailed it becomes. If I don’t stop myself, I end up with a plan that may be impossible to implement, much less complete.

A few years ago, a speaker at a conference for entrepreneurs taught me how to implement complex plans. The topic was how to prepare a pitch for prospective investors.

“How do you know when your presentation is ready?” the speaker asked. “The answer is simple: always and never.”

Your presentation is always ready, he explained, because you may have to give it today. And it is never ready, because once you give it, you will continue to work on it and improve it.

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The key is to not worry about whether a plan is perfect before it is implemented, but rather to immediately implement the best plan currently available, when sufficiently developed, then continuously refine and upgrade that plan.

If your client waits to implement a plan until she thinks everything is perfect, she will never implement anything. No matter how well-conceived the plan, you can always improve and enhance it. Your client will never find a perfect time to implement the plan because something will always stand in the way. Instead of waiting for a perfect time, your client has to decide when a plan is sufficiently developed to begin implementing it.

White Hats do the best that they can today, and work on improving their plans tomorrow. Implementing a plan shows a court that your client approached with seriousness the responsibility to secure and protect her intangible assets.

Enforce Consistently

White Hats understand that taking reasonable steps to protect their intangible assets involves more than drafting a boilerplate plan that sits in their CEOs' desks. A plan is useless if not incorporated into a company's culture and practice.

In fact, a plan may be worse than useless if not properly implemented. If, for exam-

ple, a plan states that a company will store certain documents in password-protected files accessible only by a select few people and then fails to do so, the company may lose the ability to protect those files as trade secrets. If a company has identified a "reasonable" procedure for protecting its trade secrets and then fails to implement that procedure, you will have a difficult time persuading a court to protect the company's trade secrets. Unsurprisingly, a court will be reluctant to do for a company what the company was unwilling to do for itself.

White Hats develop reasonable policies to protect their intangible assets, then implement and enforce their policies consistently. This type of employer regularly trains company employees about their responsibility to protect the company's intangible assets. That training and teaching is always and never done. White Hats train when they hire, when they promote, and when they meet, in regular staff meetings. They teach employees what their obligations are, and then help them fulfill those obligations.

White Hats review and update their policies and procedures regularly. At least annually, they audit and account for their intangible assets, determine who has access to those assets, and assess whether their current policies are still effective. They ensure that all employees with access

to critical information have signed narrowly tailored restrictive covenants that are appropriate for each employee's position. In conjunction with their counsel and with security consultants, they revise their policies and procedures to account for company growth, and for new intangible assets and employees. When necessary, White Hats take appropriate disciplinary action against employees who disregard those reasonable policies and procedures.

Consistent enforcement takes discipline and effort by both you and your client. In some ways, consistently enforcing reasonable intangible asset policies may be the most important way that your client can demonstrate that he wears a White Hat.

Conclusion

As the cowboys in the old-time Western movies, your client can convey the clear and unmistakable message that he wears a white hat. With this white hat securely in place, your client can protect his valuable, intangible assets from theft and misappropriation.

Your job as counsel is to help your client find and wear this white hat by working with him to develop and implement appropriate strategies and procedures to reinforce and strengthen the impression that he has approached intangible assets as a White Hat. 