**SPONSORED BY THE DISTRICT OF COLUMBIA BAR CONTINUING LEGAL EDUCATION PROGRAM**

# Trade Secrets: The Next Level

Co-sponsored by the D.C. Bar Intellectual Property Law Section, Computer and Telecommunications Law Section, Labor and Employment Law Section and Litigation Section

Monday, July 12, 2004
6:00 to 8:15 PM

Milton Babirak, Esquire
Babirak, Vangellow & Carr, P.C.
1828 L Street, N.W., Suite 1000
Washington, D.C. 20036
202.467.0920
mbabirak@bvcpc.com
www.bvcpc.com

**Trade Secrets: The Next Level**
**Course Materials**

Trade Secrets: The Next Level (Outline)
Milton Babirak, Esquire
Babirak, Vangellow & Carr, P.C.

Other Materials

Tab 1
Uniform Trade Secrets Act with 1985 Amendments
(reprinted with permission of publisher)

Tab 2
The Maryland Uniform Trade Secrets Act: A Critical Summary of the Act and Case Law
(reprinted with permission of the University of Baltimore Law Review)

Tab 3
District of Columbia Official Code 2001 Edition
(reprinted with permission from West Publishing)

Tab 4
West's Annotated Code of Virginia
(reprinted with permission from West Publishing)

Tab 5
West's Annotated Code of Maryland
(reprinted with permission from West Publishing)

Tab 6
Reasonable Royalty Hypothetical Fact Pattern

Tab 7
Sample Confidentiality Agreement

Tab 8
Notes

Tab 9
Faculty Biographical Information

**TABLE OF CONTENTS**


| | | Page |
|---|---|---|
| I. | Introduction | 4 |
| II. | Effect on Other Law | 5 |
| | a. Numerous Counts | 5 |
| | b. Statutory Law | 5 |
| | c. Recent Case Law | 6 |
| | d. Inquiry | 8 |
| III. | Does Size Really Matter | 9 |
| | a. Typical Trade Secret Cases | 9 |
| | b. Franchisor/Franchisee Trade Secret Cases | 9 |
| | c. Legal Arguments Justifying Broad Trade Secret Protection | 10 |
| | d. Legal Arguments Challenging Broad Trade Secret Protection | 12 |
| IV. | Reasonable Royalty as Measure of Damages | 14 |
| | a. Statutory Provisions | 14 |
| | b. Local Case Law | 14 |
| | c. Practical Reasons to Consider Praying for Reasonable Royalty | 16 |
| | d. Class Discussion of Hypothetical Fact Pattern | 17 |
| V. | Trade Secrets Protection Program | 18 |
| | a. Reasons for Program | 18 |
| | b. The First Step; Identify the Trade Secret | 18 |
| | c. The Second Step; Prepare the Documents | 18 |
| | d. Security Procedures | 20 |
| | e. Prelitigation Considerations | 22 |
| VI. | Inevitable Disclosure Doctrine | 23 |
| | a. Overview of the Doctrine | 23 |
| | b. Current Status of Doctrine | 23 |
| | c. Importance of Doctrine | 24 |
| | d. History and Origin | 24 |
| | e. *PepsiCo, Inc. v. Redmond* | *25* |
| VII. | General Question and Answer Period | 26 |

# Trade Secrets; The Next Level

Milton Babirak
Babirak, Vangellow & Carr, P.C.
Washington, D.C.

## I. Introduction

A. The Uniform Trade Secrets Act, codified at 14 U.L.A. 439 (1990) ("Uniform Act"), (copy attached at Tab 1) was originally proposed in the U.S. in 1979 and has now been enacted in most states, with many, but generally minor, modifications on a state by state basis. For information on trade secret law specific to Virginia and Maryland, see Milton E. Babirak, *The Virginia Uniform Trade Secrets Act; A Critical Summary of the Act and Case Law,*[1] and Milton E. Babirak, *The Maryland Uniform Trade Secrets Act; A Critical Summary of the Act and Case Law*[2] (Copy attached at Tab 2).

B. The DC Uniform Trade Secrets Act ("DC Act") may be found at: D.C. Official Code, 2001 Ed. Section 36-401 *et seq.* (Copy attached at Tab 3.) The Virginia Uniform Trade Secrets Act ("VA Act") may be found at: Code of Virginia, Section 59.1-336 to 343. (Copy attached at Tab 4.) The Maryland Uniform Trade Secrets Act ("MD Act") may be found at: MD Code Ann., Comm. Law II, Section 11-12201 to 1209 (2000). (Copy attached at Tab 5.) While all three state acts are derived from the Uniform Act, differences exist between the three state acts. Obviously, you should consult the specific provisions of the applicable state act.

C. The purpose of this program is not to cover the various trade secrets statutes or case law illuminating basic trade secrets concepts. This will be done in an upcoming DC Bar CLE course this Fall on Wednesday, October 13, 2004 entitled "Secrets of the Uniform Trade Secret Act." It was offered last Fall on November 5, 2003 by the DC Bar. That course outline is available from the DC Bar.

D. This program is comprised of a selection of topics involving trade secrets law: (1) Effect on other laws; (2) size of trade secrets; (3) reasonable royalty as damages; (4) trade secrets protection program and (5) inevitable disclosure doctrine. The selection of these topics was a personal choice of the author's. There are many other interesting trade secret issues and your suggestion of topics to discuss in future programs is welcomed.

---

1 5 Va. Journ. L. & Tech. 15 (Fall 2000), available at www.vjolt.org.

2 32 no2 University of Baltimore Law Review 181, Spring 2002.

## II. Effect on Other Law

This topic is being covered in this presentation because there have been three recent cases on this topic, two of which were from VA and MD. This topic is also being covered because an understanding of the subject matter of this topic can be important to plaintiff's and defendant's counsel in defining the scope of trade secret litigation.

A. Numerous Counts. In trade secret litigation, it is unusual that the complaint only allege the misappropriation of a trade secret. Frequently, the alleged facts can support a number of causes of action. For example:

a. Duty of loyalty;
b. Unfair competition;
c. Lanham Act;
d. Fraud;
e. Constructive fraud;
f. Waste of corporate assets;
g. Breach of director's duty;
h. Breach of fiduciary duty;
i. Business conspiracy[3];
j. Tortious interference;
k. Trade or service mark infringement;
l. Violation of copyright;
m. Patent infringement;
n. Breach of contract;
o. Unjust enrichment;
p. Promissory estoppel;
q. Breach of confidentiality agreement

B. Statutory Law

1. The Uniform Act (Tab 1) provides:

"(a) Except as provided in subsection (b), this Act displaces conflicting tort, restitutionary, and other law of this State providing civil remedies for misappropriation of a trade secret.
(b) This Act does not affect:
(1) Contractual remedies, whether or not based upon misappropriation of a trade secret;

[3] There is a very interesting and useful Virginia article on this cause of action recently published at: J. Scott Sexton, *What's In A Word? The Tortured Life of the Virginia Conspiracy Statute, VA Code Sections 18.2-499 and -500,* Litigation News, VSB, Vol. XI, Number 1, Spring 2004.

(2) Other civil remedies that are not based upon misappropriation of a trade secret; or

(3) Criminal remedies, whether or not based upon misappropriation of a trade secret."

2. The DC Act says "supersedes" instead of "displaces."
3. The Virginia Act uses the same language as the Uniform Act.
4. The Maryland Act uses the same language as the Uniform Act but adds a subsection permitting state employees to raise common law and statutory defenses and immunities.

C. <u>Case Law; Motion to Dismiss Non-Trade Secret Counts in a Trade Secret Case</u>

Can defense counsel move to dismiss those numerous non-trade secret counts in a trade secret case based on this statutory provision of the Uniform Act? Three 2002 cases answer this question and also indirectly answer that proverbial question: "Why not just hire a consultant?"

1. <u>Illinois Case Law.</u> *Lucini Italia Co. v. Grappolini,* 231 F.Supp.2d 764 (N.D. Ill. 2002).

   (a) <u>Facts.</u> P, an olive oil seller, hires D, a consultant, to advise P on Italian producers of olive oil and the sale of a new line of flavored olive oils by P in the US. P alleges that D misappropriated the information for his own benefit, importing a line of flavored olive oils into the US in competition with P's olive oils. P sues consultant for: (1) breach of fiduciary duty; (2) constructive fraud; (3) fraud; (4) promissory estoppel; (5) unjust enrichment; and (6) violation of IUTSA. D moved to dismiss all counts but the trade secret count as preempted by the IUTSA.
   (b) <u>Argument.</u> D argued that the above common law claims are "married" to the trade secrets claim and are therefore preempted. P argued that the common law claims are independent of the trade secrets claim.
   (c) <u>Holding.</u> Prior Illinois case law held that "facts cognizable as a misappropriation of a trade secret may be claimed only under the IUTSA and bar pleading in the alternative." However, the Court did not follow this prior law and reviewed the elements of each count, comparing the elements of the count with the elements of the trade secret claim. With regard to the count for breach of fiduciary duty, the Court held that the elements of this cause of action differ from a claim of misappropriation of a trade secret and held that it would not dismiss the count as preempted. It analyzed and held the same for the counts of constructive

fraud, fraud and promissory estoppel. The Court found that to the extent the claim of unjust enrichment was based on the trade secret facts, it was preempted.

2. Virginia Case Law. *Stone Castle Financial, Inc. v. Friedman, Billings, Ramsey & Co.,* 191 F.Supp.2d 652 (2002). [4]

   (a) Facts. Plaintiff ("P") hired a consultant, defendant ("D"), an investment banking firm in Alexandria, VA to assist P in the purchase of a software design company which P believed was essential to its business plan. D signed P's confidentiality agreement. P alleges that D gave the confidential information, including business plans to a competitor of P, which purchased the software design company itself. P sets forth six counts in its complaint: (1) intentional interference with prospective business advantage; (2) misappropriation of trade secret; (3) breach of fiduciary duty; (4) fraud; (5) breach of confidentiality agreement; and (6) conspiracy to injure business.
   (b) Argument. D moved to dismiss, contending that counts 1, 3, 4 & 6 were preempted by the VA Act because they are all predicated on the general allegation that the D misappropriated P's trade secrets. P argues that because it can not be certain that its confidential information will be found to be a trade secret, it should be able to assert alternative theories of recovery; also, it alleges some of the tort claims involve additional elements beyond those necessary to prove a misappropriation claim.
   (c) Holding. The Court held that there was a "common thread" in prior case law: where courts have found preemption on a motion to dismiss, they have repeatedly established that the information was a trade secret before reaching the preemption question. "Indeed, we do not agree that the UTSA provides blanket preemption to all claims that arise from a factual circumstance possibly involving a trade secret." "…unless it can be clearly discerned that the information in question constitutes a trade secret, the Court can not dismiss alternative theories of relief as preempted by the VUTSA."

3. Maryland Case Law. *Swedish Civil Aviation v. Project Mgmt. Enter.,* 190 F.Supp.2d 785 (D.Md. 2002). [5]

---

[4] *See also, H.E.R.C. v. Turlington,* 62 Va. Cir. 489 (2003).

[5] *See also, First Union Nat'l Bank v. Steele Software Sys. Corp.,* 838 A.2d 404 (Md. Ct. Spec. App. 2003).

(a) Facts. P, a Swedish government agency, hired D, a consultant in Bethesda, MD, to assist P in obtaining the approval of its air traffic control technology by an international organization thereby requiring its use internationally. P alleges that D undermined its efforts and developed its own competing technology. P sets forth seven counts in its complaint: (1) breach of contract; (2) unjust enrichment; (3) fraud; (4) negligent misrepresentation; (5) misappropriation of trade secret; (6) breach of confidential relationship; and (7) professional malpractice.

(b) Argument. D argues that the MUTSA preempts P's claim of breach of confidential relationship because it is based on misappropriation of a trade secret. P argues that it did not claim its confidential information was a trade secret. D says that the P claimed the information was a trade secret in its trade secret count.

(c) Holding. The Court held that P could plead in the alternative. Accordingly, the claim for breach of confidential relationship is not preempted by the MUTSA.

4. Connecticut Case Law. *Brodeur & Co., CPAs, P.C. v. Charlton,* No. X04CV0101245195, 2003 WL 21214140 (Conn. Super. Ct. May 09, 2003). A CPA firm sued its former employee for common law trade secret misappropriation and statutory trade secret misappropriation. Court held the common law count was preempted.

5. California Case Law. *Callaway Golf Co. v. Dunlop Slazenger Group Am.,* 295 F.Supp.2d 430 (D.Del. 2003), where alternative counts were not preempted because it had yet to be determined that the information at issue should be classified as a trade secret.

D. Inquiry: Has anyone in the audience had a case involving such preemption issues? Outcome?

## III. Does Size Really Matter?

A. Typical Trade Secret Cases. In many, if not most, trade secret cases, the size of the trade secret is not a factor in the case since the trade secret at issue is specific, singular and limited, such as a manufacturing process[6], source code, object code[7], new technologies[8], or customer or patient lists.[9]

B. Franchisor/Franchisee Trade Secret Cases. However in some cases, trade secrets can be large. In particular, franchisor/franchisee trade secret cases can sometimes involve large amounts of information, even whole franchise systems. For example:

1. *ServiceMaster v. Pletcher,*[10]Civil Action No. 00-942-A in the US District Court for the Eastern District of Virginia. ServiceMaster, a large national franchisor of cleaning businesses claimed its whole "Business System" was a trade secret. ServiceMaster required its franchisees to use this Business System to conduct their cleaning business. This Business System was compromised of dozens of three inch, three ring manuals, altogether consisting of thousands of pages of text and numerous video tapes. The Business System also consisted of numerous periodic magazines and newsletters, technical bulletins, training materials, training seminars, workshops, promotional materials, advertising materials, marketing materials, sales materials, invoices, and even correspondence with third parties. These materials covered virtually every aspect of forming, operating and maintaining a cleaning business. These materials not only covered how to clean things but also how to keep business books and records, run an office and even first aid. (The franchisor now maintains a web site containing most of these materials which is available only to franchisees with the proper user id and password.)

---

[6] *Perdue Farms, Inc. v. Nat'l Union Fire Ins. Co.,* 197 F.Supp.2d 370 (D.Md. 2002), regarding a process for preparing rotisserie chicken.

[7] *Trandes Corp. v. Guy F. Atkinson Co.,* 996 F.2d 655 (4th Cir.1993), regarding software to dig tunnels.

[8] *Swedish Civil Aviation Admin. V. Project Mgmt. Enter., Inc.,* 190 F.Supp.2d 785 (D.Md. 2002), regarding new technology to transmit aircraft location.

[9] *Dworkin D.D.S., P.A. v. Blumenthal, et al.,* 77 Md. App. 770 (1989), regarding a list of dental patients.

[10] There is no confidentiality clause in the Settlement Agreement and Mutual Release executed in this case.

2. *Big O Tires, Inc. v. Granada Enterprises Corp., et al.* [11] The Court upheld plaintiff's claim that its whole "Big O System", compromised of "techniques, systems, details as to the Big O system, theory and practices, supplier lists, equipment standards, specials uses of equipment and equipment supplier lists" is a trade secret.
3. *Gold Messenger, Inc. v. McGuay.* [12] A franchisor developed a comprehensive system for setting up and operating an advertising circular business. This system was compiled in an apparently voluminous manual. Plaintiff sought to enforce its written covenant not to compete against defendant in Colorado which statutorily voided such agreements unless it is to protect a trade secret.[13] The Court held that the whole manual was a trade secret.
4. Such broad systems can be put on a website which is password protected, available only to franchisees. Not only does this dramatically reduce the cost of assembling and distributing the alleged trade secret, it also allows the franchisor to argue that they have taken reasonable measure to maintain the secrecy of such a large body of information.

C. Legal Arguments Justifying Broad Trade Secret Protection.

1. Statutory Law. There appears to be no statutory limit on the size of a trade secret.

   a. Uniform Act. Section 1.(4) defines "trade secret" as "information, including a formula, pattern, compilation, program, device, method, technique or process,…" (Emphasis supplied.)
   b. DC Act. Section 36-401(4) has the same language.
   c. VA Act. Section 59.1-336(4)uses the same language but adds "not limited to."
   d. MD Act. Section 11-1201(e) is the same as the Uniform and DC Acts in this regard.
   e. Note all definitions include "compilations."

2. Case Law Relating to Compilations of Information.

   Not only have courts found that whole franchise systems can be trade secrets, there is a great deal of case law that stands for the

[11] Business Franchise Guide (CCH) Paragraph 11, 607 (C.D. Cal. 1990), Case No. CV98-2298DT.

[12] 937 P.2d 907 (Ct. App. Co. 1997).

[13] Section 8-2-113(2)(b), Colo. Rev. Stat. Ann. (West 1994)

proposition that compilations and combinations of generally known information, readily ascertainable information or both, can be a trade secret.

a. MD Case Law. In *Motor City Bagels, LLC v. American Bagel Co.*[14] the court found that a business plan was a trade secret even though the business plan contained some facts ascertainable from the market place and some public information. In this case, two recent MBA's were investigating and negotiating the purchase of a bagel franchise and prepared an extensive business plan assessing the viability of a bagel franchise. The franchisor with whom they were negotiating disclosed the plan to other prospective franchisees. The court held that while the business plan at issue did contain some public information and facts ascertainable from the marketplace, it likewise included personal insights and analysis brought to bear through diligent research and by marshaling a large volume of information. The Court found that an attempt to independently duplicate the plaintiff's efforts would be an onerous task. While the Maryland Act is clear that information that is generally known or readily ascertainable can not be a trade secret, combinations of generally known information, combinations of readily ascertainable information and combinations of both, can be trade secrets.
b. VA Case Law. In *Comprehensive Tech. v. Software Artisans,*[15] the Court stated "…although a trade secret can not subsist in information in the public domain, it can subsist in a combination of such information, as long as the combination is itself secret." (Emphasis in original.)
c. Federal Circuit. *BBA Nonwovens Simpsonville, Inc. v. Superior Nonwovens, LLC*[16]*.* BBA Nonwovens, and other manufacturers brought an action against a competitor, Superior Nonwovens, alleging trade secret misappropriation and patent infringement as a result of Superior's manufacture of certain spunbond nonwoven fabric. After a jury trial in favor of Ps, Ds appealed arguing that because most, if not all of the elements of P's process were in the public domain, they could not be considered a trade secret.

[14] 50 F. Supp. 2d. 460 (D.Md. 1999)

[15] 3 F.3d 730 (4th Cir. 1993).

[16] 303 F.3d 1332 (Fed. Cir. 2002) (Applying SC law).

The Federal Circuit rejected that argument instead following the widely held rule that "a trade secret can exist in a combination of characteristics and components, each of which, by itself, is in the public domain, but the unified process, design and operation of which, in unique combination, affords a competitive advantage and is a protectable trade secret."

d. Thus, by combining or compiling information, the amount of information that can be protected as a trade secret can be maximized.

D. Legal Arguments Challenging Broad Trade Secret Protection

1. Public Policy of Job Mobility. It is a well recognized public policy in DC, VA and MD to permit the free mobility of employees. Nearly forty years ago one court said:

"[a]n employer who discloses valuable information to his employee in confidence is entitled to protection against the use of these secrets in competition with him. But the employee who possesses the employer's most valuable confidences is apt to be highly skilled. The public is interested in the reasonable mobility of such skilled persons from job to job in our fluid society, which is characterized by and requires mobility of technically expert persons from place to place, from job to job and upward within the industrial structure. And the employee himself must be afforded a reasonable opportunity to change jobs without abandoning the ability to practice his skills."[17]

a. VA Case Law. *County of Giles v. Wines,* 262 Va. 68 (2001); *Town of Vinton v. City of Roanoke,* 195 Va. 881 (1954).

b. MD Case Law. *Szaller v. Am. Nat'l Red Cross,* 293 F.3d 148; *Parker v. Penske Truck Leasing Corp.,* 18 Fed. Appx. 148.

c. A broad interpretation of the scope of trade secret protection can effectively interfere with this public policy of free mobility of employees. If the volume of information alleged to be a protectable trade secret is large, it may mean that an employee can not leave his job to continue to work in the same industry since the employee will necessarily use or disclose trade secret information of his previous employer.

[17] *Standard Brands Inc. v. Zumpe,* 264 F.Supp. 254, 259 (E.D. La. 1967)

2. General Knowledge and Skills. It is a well recognized public policy to allow an employee to depart employment with general knowledge and skills.

   a. MD Case Law. *Space Aero v. Darling,* 283 Md. 93, 113, 208 A.2d 74, 84 (1965) and the several cases cited therein.
   b. A broad interpretation of the scope of trade secret protection can effectively interfere with this public policy allowing employees to use their general knowledge and skills. If the volume of information alleged to be a protectable trade secret is large, it may mean that an employee can not leave his job to continue to work in the same industry since the employee will necessarily use such knowledge and skills while employed by his new employer.

3. Unlawful Non-Compete.
   a. In order for a non-compete agreement to be enforceable, it must have reasonable limitations as to the breath of the activity being restricted, time and geography.
      1. MD Case Law. *Becker v. Bailey*, 368, Md. 93, 96, 299 A. 2d 835 (1973).
      2. VA Case Law. *Simmons v. Miller,* 261 Va. 561, 544 S.E.2d 666 (2001).
      3. DC Case Law. *Deutsch v. Barsky,* 795 A.2d 669 (D.C. 2002).

   b. Some states do not recognize non-competes. “Except as provided in this chapter, every contract by which anyone is restrained from engaging in a lawful profession, trade or business of any kind is to that extent void.”[18]
   c. Neither the Uniform Act nor any state trade secret act has any geographic or temporal limit on the protection of a trade secret. Accordingly, the protection of a large volume of information could function as the equivalent of an unlawful non-compete agreement without reasonable restraints on time or geography.

[18] Calif. Bus. & Prof. Code, Section 16600 (West 2001).

## IV. **Reasonable Royalty As A Measure of Damages**

In a sense this is not a "hot" topic because there is very little case law on reasonable royalties in lieu of other damages. However, it may be an important topic because it might turn an otherwise uneconomical case into an economically justifiable case.

A. Statutory Provisions for Reasonable Royalties.

1. Uniform Act[19] and DC[20], VA[21] and MD[22] Acts are all basically the same regarding damages. They permit the award of damages for:
   a. Actual loss; and
   b. Unjust enrichment (that is not taken into account in computing actual loss); or
   c. Reasonable royalty
      i. The "and" and "or" here are important.
      ii. VA's law before the VUTSA was that damages could be awarded for P's actual loss or D's unjust enrichment but not both.[23]
      iii. Conn. Law allows only actual loss or unjust enrichment but not both.[24]

B. Local Case Law. *American Sales Corp. v. Adventure Travel, Inc.,* 862 F.Supp. 1476 (E.D. Va. 1994).

1. Facts. In the *American Sales* case, American Sales Corp. was granted summary judgment on its trade secret claim that Adventure Travel, Inc. misappropriated its customer list. The amount of plaintiff's damages was the sole issue

---

[19] Section 3(a).

[20] Section 36-403(a).

[21] Section 59.1-338A.

[22] Section 11-1203 (a) – (c).

[23] *American Sales Corp. v. Adventure Travel, Inc.,* 862 F.Supp. 1476 (E.D. Va. 1994) at p. 1479, citing *Sperry Rand Corp. v. A-T-O, Inc.,* 447 F.2d 1387 (4th Cir. 1971), *cert denied,* 405 U.S. 1017, 92 S.Ct. 1292, 31 L.Ed.2d 479 (1972).

[24] *Evans v. GM Corp.,* No. X06CV940156090S, 2003 WL 21040255 (Conn. Super. Ct. Ap. 22, 2003).

at trial. American Sales was a multilevel marketing corporation which sold discount services, called a "Passport" membership, for a fee through independent distributors. Adventure Travel provided the discount travel services for Passport members under a contract with American Sales. American Sales provided Adventure Travel the list of its 28,000 Passport members but the contract emphasized the importance of keeping the list confidential and prohibited Adventure Travel from using the list for its own gain. P obtained the list from Pat Robertson and Christian Broadcasting Network. P did not go through the expense of compiling the list. The multilevel marketing industry is highly competitive and these types of lists are expensive to develop and compile. In 1991, P spent $121,000 on advertising and promotional costs to build the lists. In 1992, $164,000 for the same. After the contract terminated, Adventure Travel created its own multi-level marketing company offering discount services very similar to American Sales', allegedly using the confidential customer list. D had only contacted between 35 and 50 persons on the list. Only seven of them joined D's program. The value of the seven memberships was $1,178.00. So we have a very valuable asset taken from P by D but it only generated a little revenue for D.

2. Argument. P argued it should recover costs in developing the list, promoting the business to potential members and the cost of the actual physical compiling of the list. P also asked for the $1,178 in revenues D received by soliciting P's members. D argued there was no actual loss to P since P's business was already in bad shape. Also, the unjust enrichment was *de minimus* since D only received $1,178 and only a portion of that was profit.
3. Holding. The Court found that it could calculate a reasonable royalty as P's award since P's actual losses and D's unjust enrichment were small. The Court cited *University Computing Company v. Lykes-Youngstown Corp*[25].: "The lack of [significant] profits does not insulate the defendant from being obligated to pay for what [it has] wrongfully obtained in the mistaken belief [its] theft would benefit [it]." The Court said, again citing *University Computing*: "The simplest measure of this royalty is the actual [market] value of what has been misappropriated." Accordingly, the Court tried to approximate the valuation

[25] 504 F.2d 518, quoting *Vitro Corp. of Am. v. Hall Chemical,* 292 F.2d 678, 683 (6th Cir. 1961).

of a fictional license of the list by P to D, using P's expert's testimony. The Court did not require exactitude. There did not seem to be a ready market for such lists since most owners wanted to protect them rather than sell or license them. The Court found that the cost of 1000 names was $150 based on the cost of compiling and maintaining the lists. Estimating the number of names the D would have rented and estimating the number of uses of the names by D, the Court valued the license at $22,500. The Court held that the VUTSA prohibited also awarding the $1,178 to P since a reasonable royalty was the exclusive remedy and the $1,178 constituted D's unjust enrichment. The Court also held that the costs of developing, compiling and maintaining the list could not be awarded since "these are precisely the types of costs that determine value."[26]

C. Practical Reasons to Consider Praying for Reasonable Royalty.

1. Advantages to P.

a. Actual Losses. Plaintiffs may not be able to readily determine their own actual losses because the plaintiff may not be aware of or be able to reasonably calculate the effects of the defendant's misappropriation of plaintiff's trade secret on plaintiff's business. In fact, there may not be any significant effect on P's business. The full effects on P's business may never be known. D may not fully disclose his activities so P may not know the effects of D's activities on P's business. Even if P knows the effects on his business, he may not be able to prove that D caused them since there are many other variables, *e.g.*, market changes, management changes, competition, new technologies, etc.[27]

b. Unjust enrichment. Plaintiffs may not be able to calculate defendants' unjust enrichment because the defendant may not fully disclose or properly calculate the amount defendant has profited by the misappropriation. Further, defendant may not have fully utilized the trade secret so as not to disclose the

---

[26] *Id.* At 1480.

[27] Speculative profits can not be recovered. *Isthmian S.S. Co. v. Jarka Corp.,* 100 F.Supp. 856.

misappropriation. The D may have failed to profitably utilized the trade secret due to his own failures or lack of expertise.

c. Reasonable Royalty. A royalty amount may be much easier for the plaintiff to prove since it has the information concerning its own trade secret and is already aware of its value. This is information that the D may not have or may not understand as well as P.

2. Disadvantages to Defendant. Defendant may have only had the secret for a short time, may not have been able to use it to its full potential and not generated much money from it because it was wrongfully obtained. Defendant may not have all of the facts concerning the secret to be able to disprove the alleged value which the plaintiff attributes to the secret.

3. Disadvantages to Plaintiff. The *American Sales* case suggests that courts are going to take a very close, practical, look at the numbers when calculating a reasonable royalty. Some plaintiffs with great expectations may be disappointed in the size of the royalty calculated by a court.

D. Class Discussion of Hypothetical Fact Pattern. See Tab 6.

## V. Trade Secrets Protection Program

A. Reasons for A Program

1. Trade secrets deserve protection since they are frequently the lifeblood of a business.
2. The business can only make use of its trade secrets through its employees. This presents a risk.
3. Arguably, the substantial and growing body of trade secret case law may be evidence that at least some employers are doing a very bad job in protecting their trade secrets.
4. A program can be prophylactic. Trade secret litigation, like most litigation, is expensive and, to a substantial degree, unpredictable.

B. The First Step; Identify the Trade Secret.

1. Obvious, but no one does it.
2. Employers believe that all their information is a trade secret. Support for this opinion can be found in many confidentiality agreements tendered to new employees by employers. The agreements frequently cover everything. Commonly, employees believe nothing is a trade secret. This may be self-serving but is sometimes based on the employee's observation that the employer does not treat its trade secrets as secrets. From the set of information that the employer identifies as a trade secret, counsel must ascertain what might be protectable and what might not be protectable.
3. Identifying and narrowing the trade secret(s) makes the possibility of protection more probable.
    a. Employers will have more reasonable expectations.
    b. Employees can at least identify what the employer considers a trade secret.
    c. Security resources can be applied more efficiently if focused on a narrower spectrum of information.
    d. Courts are more likely to protect specific information.

C. The Second Step; Prepare the Documents.

1. Confidentiality Agreement (a/k/a Non-disclosure of Proprietary Information Agreement).
    i. Preliminary.
        1. Require employees to sign when they start employment. Condition of employment. No separate consideration is necessary.
        2. Require employees to attend a meeting describing the trade secrets, explain the need for confidentiality

and the employer's expectation of non-misappropriation. Have them sign an attendance log.

3. If the trade secrets change during employment or enlarge outside of the definition in the confidentiality agreement, have the employees sign a new agreement.

ii. Contents of Confidentiality Agreement.

1. Definition. Rationally define the trade secret. An overly broad definition may not be helpful. Courts do not consider themselves bound to the "…employer dictated recitals in the formal employment agreement."[28]
2. Tattle Tale Provision. In some cases, employees know more than they let on. Sometimes you can not prove misappropriation by an employee but you have enough evidence to show he knew of the misappropriation but did not so inform the employer. Require an employee to report to the employer all unauthorized disclosures or uses of an employer's trade secrets which come to the employee's attention.
3. The "I didn't know" defense. Commonly, employees defend themselves by arguing they did not know the disclosed information was a trade secret. Require the employee to make reasonable inquiries of his employer if he is uncertain if information is a trade secret.
4. Exit interview. Require the employee to attend an exit interview on trade secrets and remind him of his obligations with respect to this issue.
5. Return of Information. Require the employee to return to the employer all trade secret information upon the termination of employment for any reason.
6. Assignment. Allow the employer to assign the agreement without the employee's consent to accommodate reorganizations, sales, etc.[29]
7. Liquidated damages. A provision requiring liquidated damages may seem attractive in some cases since damages are hard to prove in trade secrets cases. However, be careful. In some jurisdictions liquidated

[28] *Eutectic Welding Alloys Corp. v. West,* 160 N.W.2d 566, 571 (Minn. 1968).

[29] *Securitas Sec. Servs. USA, Inc. v. Jenkins,* No. 03-2950BLS, 2003 WL 21781385 (Mass. Super. Ct. July 18, 2003). No misappropriation when trade secret owner sold the company to another.

damages can negate the availability of injunctive relief which is so important in trade secret cases.[30]

8. Attorney Fees.
9. Governing Case Law. Since there is so little DC case law on trade secrets, can you select another jurisdiction?

iii. Sample Confidentiality Agreement Attached. See Tab 7.

2. Exit Interview Acknowledgement.
   i. Signed at exit interview.
   ii. Purpose is to remind employee.
   iii. Acknowledge and reaffirm employee's obligation regarding employer's trade secrets, even after employment
   iv. Return all trade secret materials
   v. Refusal to sign is a flashing red light
      1. Investigate
      2. May constitute threat of misappropriation under applicable UTSA.

3. Previously Acquired Trade Secret Disclosure Declaration for New Employees.
   i. Form declaration.
   ii. Requires newly hired employees to declare if she is subject to any prior confidentiality agreement of a prior employer.
   iii. An example is at: Richard C. McCrea, Jr., *"Protecting Trade Secrets and Confidential Information (with Forms),"* 44 no.5 Pract. Law. 71, App.2.

D. Security Procedures

1. The case law highlights the fact that much information has been found to be unprotectable as a trade secret because the owner failed to make reasonable efforts under the circumstances to maintain secrecy.

2. The UTSA requires that such efforts only have to be reasonable. Extraordinary efforts are not required.[31]

3. However in many cases, all it takes is one disclosure to lose trade secret status.[32]

[30] *Sun Elastic Corp. v. O.B. Indus.,* 603 So.2d 516, 518 (Fla. Dist. Ct. App. 1992).

[31] *Rockwell Graphic Sys. , Inc. v. DEV Indus., Inc.,* 925 F.2d 174 (7th Cir. 1991).

[32] *Crown Indus., Inc. v. Kawneer Co.,* 335 F.Supp. 749 (N.D. Ill. 1971).

4. Efforts that are reasonable under the circumstances will vary from case to case. Some examples of measures to advise clients to take to maintain secrecy are:

    a. Classifying and labeling certain documents as trade secrets;

    b. Restricting access to certain materials or areas;

    c. Limiting disclosures within the company only to those individuals who need the trade secrets in order to perform their jobs properly;

    d. Implementing badge or other electronic monitoring systems;

    e. Advising employees of the existence of trade secrets and conditioning employment on signing confidentiality agreements;

    f. Requiring consultants, customers, vendors, and ancillary service providers to sign confidentiality agreements;

    g. Implementing periodic internal review procedures regarding inventions, periodicals, marketing materials, and government filings;

    h. Restricting access to computers, copiers, fax machines, and trash receptacles;

    i. Performing security checks of employees, visitors, and others with access to trade secrets;

    j. Using protective orders when disclosing trade secrets in the course of litigation; and

    k. Performing exit interviews with departing employees to require protection of trade secrets.

5. Not only does the trade secret owner have to take measures that are reasonable under the circumstances to protect the secrecy of the trade secret, the trade secret owner must also make sure its licensees and agents do so as well. In *Home Paramount Pest Control Companies, Inc. v. FMC Corp./Agric. Products Group,* [33] the Court held that even if

[33] 107 F.Supp.2d 684, 693 (D.Md. 2000).

the owner of a trade secret meets the secrecy requirements, it must also make sure that, if it licenses the trade secret to another, the owner take steps to make sure that the licensee also treats the information as secret. If the owner does not, any disclosure by the licensee of the information to others may not be protected.

E. <u>Prelitigation Considerations.</u>
   1. <u>Investigation.</u>
      i. Full and complete.
         1. But may not be able to determine how employee took the trade secret.
         2. Check employee's computer and emails.
         3. Usually circumstantial evidence only.
      ii. Employer may actually have some advantage re facts.
         1. Interview peers and supervisors of employee. They may be talkative.
         2. Get sworn statements for TRO.
      iii. In any case, you want to investigate to claim you have taken reasonable measures to protect the secrecy of the trade secret.
      iv. Is the new employer involved? Who will be the defendant? Both? Is new employer willing to litigate?
   2. <u>Cease and Desist Letter.</u>
      i. To departed employee and new employer.
      ii. May actually work in some cases if new employer is an entity that is not formed by the departing employee.
      iii. Such a letter puts the departing employee on notice. He will cover his tracks and may retain counsel.

## VI. Inevitable Disclosure Doctrine

A. Overview of Doctrine

1. Allows a trade secret owner to prevent a former employee from working for a competitor even where:
   a. The employee has not signed a non-compete and
   b. Has not misappropriated or threatened to misappropriate any trade secret.
2. Under the IDD, the employer claims that the departing employee's duties under his new employer will inevitably cause the employee to rely upon and use knowledge of the former employer's trade secret.
3. One reason this doctrine is controversial is that it limits an employee's job mobility, for which there is a well recognized public policy.

B. Current Status of IDD.

a. Number of Jurisdictions Adopting IDD.
   i. In 1999, the Practicing Law Institute published a survey of the IDD.[34] The authors listed twenty-one states supporting the IDD: Arkansas, Connecticut, Delaware, Florida, Indiana, Iowa, Kansas, Louisiana, Massachusetts, Michigan, Missouri, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Texas, Utah, Washington and Wisconsin.
   ii. In 2002, a similar survey was published in Southern Methodist University Law Review.[35] The author concluded that eight states had adopted the IDD (Arkansas, Delaware, Illinois, Minnesota, New Jersey, Ohio, Utah and Washington); four states lacked definitive case law (Indiana, Michigan, Missouri and Pennsylvania); and six states adopted a limited version of the IDD (Connecticut, Iowa, Massachusetts, New York, North Carolina and Texas). The author found three states that had specifically rejected the doctrine (Virginia, California and Florida).

b. Virginia and Maryland Case Law.

---

[34] Stephen L. Sheinfeld & Jennifer M. Chow, *Protecting Employer Secrets and the Doctrine of Inevitable Disclosure,* 600 PLI/LIT 367, 411-22 (March 1999).

[35] Brandy L. Treadway, *An Overview of Individual States' Adoption of Inevitable Disclosure: Concrete Doctrine or Equitable Tool?*, 55 no2 SMU L.R. 621 (Spring 2002); *See also,* Keith A. Robertson, *Annual Survey of South Carolina Law: Employment Law: South Carolina's Adoption of IDD,* 52 S.C. L.Rev. 895 (2001).

i. A circuit court in VA has held that VA does not recognize the IDD.[36]

ii. "The doctrine of inevitable disclosure has not been expressly adopted by Maryland state courts."[37]

c. DC Case Law. I have found no case law for the DC on this issue.

d. CA Case Law. California has recently held that IDD is contrary to public law and policy since it creates an after-the-fact covenant not to compete that restricts an employee's mobility.[38]

e. Federal Courts. The Fifth,[39] Seventh[40] and Eight Circuits[41] have specifically relied on the doctrine.

C. Importance of Doctrine

a. IDD cases are illuminating. Judges must balance the competing interests of owners seeking to protect trade secrets and employee's interest in free job mobility.

b. IDD cases are still brought in our three local jurisdictions, occasionally by out of state counsels who are unaware of our local case law.

D. History and Origins of IDD.

In the mid 1960s before the UTSA, three cases were decided which were the source of the IDD. The three initial inevitable disclosure cases are: *B.F. Goodrich Co. v. Wohlgemuth*,[42] *Allis-Chalmers Manufacturing Co. v. Continental Aviation & Engineering Corp.*,[43] and *E.I. duPont de Nemours & Co. v. American Potash & Chemical Corp.*[44] All three of these cases involved a similar fact pattern. The employer was a leader in a highly technical and competitive industry because of the technology (trade secrets) it developed. In the *Goodrich* case, the technology was the development of space suits. In the *American Potash* case, it was pigments

[36] *GTSE, Inc. v. Intellisys Tech. Corp.,* 51 Va. Cir. 55 (1999).

[37] *Padco Advisors, Inc. v. Omdahl,* 179 F.Supp.2d 600, 611 (D.Md. 2002).

[38] *Whyte v. Schlage Lock Co.,* 101 Cal.App.4th 1443 (Cal.App. 2002).

[39] *See Varco,* 677 F.2d at 504.

[40] *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262, 1272 (7th Cir. 1995).

[41] *Modern Controls, Inc. v. Andreadakis,* 578 F.2d 1262, 1270 (8th Cir. 1978).

[42] 117 Ohio App. 493, 192 N.E.2d 99 (1963).

[43] 255 F. Supp. 645 (E.D. Mich. 1966).

[44] 41 Del. Ch. 533, 200 A.2d 428 (1964).

and in the *Allis-Chalmers* case it was advanced fuel injection pumps. In each of these three cases, the competitors of these companies could not compete successfully because those competitors lacked the technology owned by the industry leader. The competitors attempted to get the technology by hiring away one of the industry leader's senior scientists or executives who was directly involved with and intimately familiar with the subject technology of the trade secret. The competitor's purpose was to obtain the technology and develop the same technology to successfully compete with the plaintiff. In each of these cases, the departing employee had not signed a non-disclosure of proprietary information agreement or non-competition agreement. Moreover, the employee had not threatened to use or disclose his former employers' trade secrets. In each case, P argued that it was inevitable that the employee would use or disclose the trade secret of his former employer while he was engaged in the duties for which he was hired by his new employer.[45]

E. *PepsiCo, Inc. v. Redmond.*[46]

   a. Introduction. After the three original IDD cases, there was relatively few, if any, cases decided which applied the IDD until 1995. In that year, the Seventh Circuit decided the *PepsiCo* case under the ILUTSA. The case was significant because; (1) it was decided under a uniform Act instead of common law, as the three original cases; (2) the IDD was applied to a non-technical employee; and (3) it set forth some standards for evaluating whether disclosure would be inevitable.

   b. Facts. Plaintiff, Pepsi, was marketing and selling a sport drink called "All Sport" which was far behind Quaker Oats' "Gatorade" in market share. (Contrary to the fact pattern of the original three IDD cases, plaintiff in this case was not the market leader.) Redmond was a Pepsi business manager in charge of marketing, pricing and distribution for a Pepsi business unit which included All Sport. Redmond had signed a confidentiality agreement when he started work at Pepsi. In this position, Redmond knew All Sport's marketing, pricing and distribution information and strategies. There was intense competition between Pepsi and Quaker Oats for market share for these types of beverages. Quaker Oats, the market leader, hired Redmond away from Pepsi to work on its Gatorade and Snapple lines. While in negotiations with Quaker Oats for his new job and before he left Pepsi, Redmond was not completely honest with Pepsi

---

[45] See Lawrence I. Weinstein, *"Revisiting the Inevitability Doctrine: When Can A Former Employee Who Never Signed A Non-compete Agreement Nor Threatened To Use Or Disclose Trade Secrets Be Prohibited From Working For A Competitor?,"* 21 Am. J. Trial Advoc. 211, footnote 72. See also *Electro Optical Industries, Inc. v. Stephen White*, 90 Cal. Rptr. 2d 680, 53 U.S.P.Q. 2d 1206 (1999).

[46] 54 F.3d 1262 (7th Cir. 1995).

or Quaker Oats, trying to start a bidding war between the two companies over him.

c. Argument. Plaintiff argued that Redmond had obtained important trade secret information while employed at Pepsi concerning All Sport, including marketing, distribution and pricing plans. He would inevitably use this in his new job at Quaker Oats. Redmond and Quaker Oats argued that they have not and do not intend to use the information in his new job. The Pepsi information would not be helpful anyway because Pepsi had a vertically integrated distribution network and Quaker Oats did not. D also argued that D had a preexisting distribution plan and Redmond's knowledge of Pepsi's plan was irrelevant. Also, Redmond had already signed a confidentiality agreement and P had an adequate remedy under that contract if and when it was ever breached.

d. Holding. Applying the inevitable disclosure theory, the lower court granted Pepsi a preliminary injunction against Redmond and Quaker Oats, prohibiting Redmond from any beverage pricing, marketing and distribution at Quaker. The Seventh Circuit affirmed the injunction. The Court held that under the IUTSA, "…a plaintiff may prove a claim of trade secret misappropriation by demonstrating that defendant's new employment will inevitably lead him to rely on the plaintiff's trade secret." The Court established certain elements for inevitable disclosure: (1) The employee must possess "extensive and intimate knowledge; (2) The employee's positions must be so similar that he would have to rely on the trade secret to perform his new job; and (3) The employee's lack of candor. (Is this relevant?)

e. Court's Emphasis. The Court emphasized that Redmond's knowledge would be helpful to Quaker Oats even if Quaker Oats did not use the knowledge to create a new distribution system or marketing plan because Quaker Oats would be able to use the knowledge to anticipate Pepsi's distribution, pricing and marketing moves. In addition, the Court put substantial emphasis on the fact that Redmond had not been completely honest, trying to get the two companies to start a bidding war over him. The Court concluded that because of his behavior, the Court had a hard time believing that he would not use his knowledge against Pepsi.

f. Aftermath. The case revived the IDD. Since the decision in this case, there have been many IDD cases in many jurisdictions. Many such cases involved very low level employees.

g. Class discussion of IDD.

**VII. General Question & Answer** Period

## TAB 6

## HYPOTHETICAL PROBLEM
## RE
## REASONABLE ROYALTY

WMD Be Gone, Inc. ("WMDBG") is a northern Virginia high tech company which has developed a software program, scanning device, and the concept for a conveyor delivery system which will rapidly and economically scan, identify, classify, tag and convey airline passenger luggage. The system searches for weapons of mass destruction, other weapons, explosives, hazardous materials, biochemical agents and controlled substances which may be hidden in passenger airline luggage. This system will dramatically reduce or eliminate delays at airports. The system is a trade secret of WMDBG. WMDBG has disclosed this trade secret under a confidentiality agreement to Belts R Us, Inc. ("BRU"), a consultant to WMDBG. BRU is a conveyor belt manufacturer and will advise WMDBG on the conveyor belt for the system. BRU knows that the system, as it is presently structured, will not work optimally since the system sensors have not been "hardened" sufficiently to withstand the way airport baggage handlers throw luggage. Unknown to WMDBG, BRU hires a business broker, who is not a party to the confidentiality agreement, to buy a software design company and a sensor hardening company for BRU. BRU intends to produce, improve, use, and license a system similar to WMDBG's with similar software, scanning devices with hardened sensors and conveyor system.

WMDBG has spent $10M to date to develop this system but has not yet finished. It has raised this money from various investors who are now unhappy with WMDBG's management team because most of the $10M was paid to accountants, consultants, lobbyists, lawyers and as salaries to the management team. The investors are refusing to put up more money to finish development of the system and hire sales staff for the company until an investigation is completed by an independent auditor to determine were all the money went. In its PPM, WMDBE claimed that its system will be in great demand and sales of the system to airport authorities and governments will generate billions of dollars in revenues. In relation to WMDBG's size and capacity, the demand for such a system is virtually unlimited. WMDBG has no sales staff and no sales as yet.

BRU has spent $2M to date to buy the two companies, improve the system and harden the sensors. BRU has a fully functional system. WMDBG's system is far inferior to BRU's system. But due to the unlimited demand, WMDBG will still able to sell as many of its systems as it can manufacture and install as soon as the investors put in a new management team and the team hires a sales staff. BRU has received $5M from an advanced sale of a prototype system to the Kingdom of Saudi Arabia for testing. WMDBG reads about the sale in the *Wall Street Journal* and calls one of its many lawyers.

Ms. Ima Geek, WMDBG's VP for Software Design, will testify that the life expectancy of this technology is seven years. WMDBG's accountant, a former employee of Arthur Anderson, will testify that WMDBG's projected revenues will be $15M per year for those seven years.

TAB 7
SAMPLE

CONFIDENTIAL INFORMATION AGREEMENT

THIS AGREEMENT is made between XYZ, Inc. a Virginia corporation, hereinafter called "XYZ" and ____________________ of __________________________________ ____________________________________, hereinafter called the "Employee."

WHEREAS, Employee is an employee of XYZ; and

WHEREAS, as a consequence of Employee's employment with XYZ, Employee will have access to information not generally known to the general public or in the industry in which XYZ is or may become engaged, about XYZ's confidential information, including but not limited to XYZ's customers, services, products, processes, suppliers, pricing policies and related matters; and

WHEREAS it is the desire of XYZ and the Employee that all such information be and remain confidential; and

WHEREAS, Employee and XYZ desire that the Employee enter into this Confidential Information Agreement with XYZ.

NOW THEREFORE, in consideration of XYZ employing Employee at this time or continuing to employ Employee, which employment XYZ may terminate at will, Employee hereby agrees as follows:

1. NONDISCLOSURE. Employee shall not, during or after the term of this Agreement, directly or indirectly, use, disseminate, or disclose to any person, firm, or other business entity for any purpose whatsoever, any information specified in Appendix A hereto, and any information not readily ascertainable and not generally known in the industry in which XYZ is or may become engaged which was disclosed to Employee or known by Employee as a consequence of or through Employee's employment by XYZ. This includes all technical and business information of XYZ, defined as follows:

   A. Technical Information: consisting of methods, processes, formulae, compositions, proposals, inventions, machines, computer programs and formats, including but not limited to AMADEUS, a.k.a. System 1, TRAMS, CBT by TRAMS and WINCRUISE software programs, research projects, and related matters.

   B. Business Information: consisting of XYZ's customer lists and customer information, including but not limited to historical and statistical customer information, XYZ's financial information, expense and pricing data, marketing and advertising materials, customer referral sources, employment information, job assignment information and travel information, and related matters.

2. DUTY TO REQUEST CLARIFICATION. In the event that Employee is uncertain as to what XYZ information is covered under Section 1 above, Employee is required to immediately request, in writing, clarification of such question from XYZ.

3. CONFIDENTIAL RELATIONSHIP. Employee shall hold in a fiduciary capacity for the benefit of XYZ all information described in Sections 1 above.

4. CUSTOMER LISTS. Employee shall, at the time of and during employment, maintain and furnish to XYZ, a complete list of all the names, current addresses, phone numbers and places of businesses of all customers with whom Employee has dealt, immediately notify XYZ of such information of any new customer, and report all changes in such information of old customers, so that upon the termination of employment, XYZ will have a complete list of such information of customers with whom Employee has dealt.

5. RETURN OF DOCUMENTS. Employee hereby agrees that, during and after the termination of Employee's employment by XYZ, all documents in Employee's possession or work area, whether prepared by Employee or others, containing or relating in any way to such information described in Section 1 above, including copies of such items, are the property of XYZ and shall be returned to XYZ upon XYZ's request at any time or immediately upon termination of Employee's employment with XYZ. For purposes of this Agreement, "document" shall mean, without limitation, the following items, whether printed, recorded, or reproduced by any other mechanical process, including but not limited to electronically, or written or produced by hand: customer lists, agreements, communications, correspondence, telegrams, memoranda, summaries or records of telephone conversations, summaries or records of personal conversations or interviews, tape recordings, diaries, graphs, reports, notebooks, notecharts, plans, drawings, sketches, file cards, indexes, logs, summaries or records of meetings or conferences, summaries or reports of consultants, photographs, brochures, pamphlets, circulars, press releases, drafts, letters, including any marginal comments appearing on any of the documents, checks (cancelled or otherwise), minutes, and any and all other data compilations however produced or reproduced, including but not limited to electronically.

6. DISCLOSURE OF AGREEMENT TO SUBSEQUENT EMPLOYER. Employee hereby agrees to disclose the existence and substance of this Agreement, including Employee's obligations therein, to any subsequent employer of Employee.

7. DUTY TO REPORT UNAUTHORIZED DISCLOSURES TO XYZ. Employee hereby agrees to immediately disclose to XYZ, in writing, all unauthorized disclosures of information described in Section 1 above, which may come to Employee's attention during the course of Employee's employment with XYZ.

8. EXIT INTERVIEW. Employee hereby agrees that upon termination of Employee's employment with XYZ, Employee will attend an exit interview with a designated XYZ representative in order to review Employee's obligations under this Agreement.

9. NONDISCLOSURE OF PREVIOUS EMPLOYER'S TRADE SECRETS.

EMPLOYEE HEREBY DECLARES UNDER PENALTY OF PERJURY that, as of the date Employee began Employee's employment with XYZ, Employee does not have in Employee's possession, custody, or control, any trade secrets or confidential and proprietary business information of any of Employee's previous employers, whether in the form of documents, computer disks, CD-ROM, or any other means of transmitting or storing information, including but not limited to any of the following:

a. business development plans, pricing strategies and marketing strategies;

b. customer information (with the exception of customer names, addresses, and telephone numbers), including but not limited to sales information, credit or payment histories, pricing and bid specifications, and information transmitted in confidence from any of the customers of a previous employer to a previous employer;

c. vendor information, including but not limited to discount and special pricing arrangements;

d. personnel records, including but not limited to personnel files (or any portion thereof) and confidential salary information; and

e. any other information that any pervious employer of Employee indicated to Employee was confidential in nature.

Employee also pledges that, during the course of Employee's employment with XYZ, Employee will not disclose or use for the benefit of XYZ, any confidential business information Employee may have acquired during any previous employment. Employee understands that employment and continued employment with XYZ is premised upon this disclosure and pledge. If, at any time during Employee's employment at XYZ, it is found that Employee was not completely truthful and faithful in making this disclosure and pledge, Employee understands that Employee's employment will be subject to immediate termination, and that Employee may also be liable for any expense or damages incurred thereby by XYZ.

10. REMEDIES FOR BREACH. Employee agrees that violating this Agreement at any time, including during litigation, will produce severe damage and injury to XYZ. In the event of the breach of, or threatened breach by Employee of this Agreement, XYZ shall be entitled to seek injunctive relief, both preliminary and permanent, enjoining and restraining such breach or threatened breach. Such remedies shall be in addition to all other remedies available to XYZ in law or in equity, including but not limited to XYZ's right to recover from the Employee any and all damages and attorneys fees and costs that may be sustained as a result of Employee's breach.

11. BONUS FORFEITURE. If Employee, without written consent of XYZ, fails to comply with any provision of this Agreement, then Employee's right to any bonus to which Employee would otherwise be entitled shall terminate, and XYZ's obligations to make any such payment shall cease.

12. AGREEMENT SURVIVES TERMINATION. All rights or the parties pursuant to this Agreement shall survive the termination of Employee's employment with XYZ.

13. CHOICE OF LAW. The validity, interpretation and performance of this Agreement shall be controlled by and construed under the laws of the Commonwealth of Virginia.

14. FORUM AND VENUE. If any party to this Agreement brings suit against another party for breach of any provision of this Agreement, such matter shall be filed in the Circuit Court for the City of Alexandria, Virginia, and the parties hereby waive any contention that venue or jurisdiction is not proper in the Circuit Court for the City of Alexandria, Virginia.

15. ATTORNEY FEES. In the event that XYZ employs an attorney to pursue an alleged breach of the terms of this Agreement, XYZ shall be compensated by the Employee, for all reasonable costs and attorneys fees expended

16. NO WAIVER OF BREACH. The waiver by XYZ of a breach by Employee of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach by Employee.

17. ASSIGNMENT. The rights and obligations of XYZ under this Agreement shall inure to the benefit of and shall be binding upon the successors and assigns of XYZ. Employee shall not assign his rights or obligations under this Agreement.

18. ENTIRE AGREEMENT. This Agreement constitutes the entire agreement among the parties and may not be modified except by an instrument in writing signed by all parties hereto.

19. SEVERABILITY. In the event that one or more of the provisions, or portions thereof, of this Agreement is determined to be illegal or unenforceable, the remainder of this Agreement shall not be affected thereby, and each remaining provision or portion thereof shall continue to be valid and effective and shall be enforceable to the fullest extent permitted by law.

20. <u>COUNTERPARTS</u>: This Agreement may be executed in any number of counterparts and via facsimile transmission, in which case each party shall deliver to the other an original copy thereof, including an original executed signature page of the Agreement. Each of the counterparts shall be deemed one and the same instrument.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the ____ day of ________________, 20___.

| | EMPLOYEE: |
|---|---|
| ________________________________ | ________________________________ |
| Witness | |
| | XYZ, INC.: |
| ________________________________ | ________________________________ |
| Witness | |

## TAB 8

## NOTES

**Milton E. Babirak**
Babirak, Vangellow & Carr, P.C.
1828 L Street, N.W.
Suite 1000
Washington, D.C. 20036
Phone: 202.467.0920
Fax: 202.318.7558
Email: mbabirak@bvcpc.com
www.bvcpc.com

**LAW SCHOOLS:** Georgetown University Law School, L.L.M., May, 1979; John Marshall Law School, J.D., 1973; Law Review Editor.

**COLLEGE:** University of Illinois, B.S., 1968.

**BARS:** District of Columbia, Virginia, Maryland and Illinois.

**MEMBER:** Virginia Trial Lawyers Association, Virginia State Bar, Maryland State Bar Association, and D.C. Bar; Fellow of the Center for International Legal Studies; Member of the Virginia, Maryland, Fairfax County, and Anne Arundel County Bars' Sections on Business, Litigation, and Trusts and Estates.

**RELEVANT PUBLICATIONS AND SPEECHES:** "The Uniform Trade Secrets Act: Protecting Travel Industry Information & Technology" a CLE presentation for the 2003 National Travel Law Symposium, January 15, 2003; "The Maryland Uniform Trade Secrets Act; A Critical Summary and Related Case Law," 31 no2 Univ. of Balti. L. Rev. 181 (Spring 2002). "The Virginia Uniform Trade Secrets Act; A Critical Summary and Related Case Law," 5 Va. J.L. & Tech. 15 (2000) at http://www.vjolt.org.; "United States Uniform Trade Secret Act," speech at the Conference on International Protection of Intellectual Property sponsored by the American Bar Association Section on International Law and the Center for International Legal Studies, Kitzbuhel, Austria, March 21, 2000. "The Virginia Uniform Trade Secrets Act," Litigation News, Summer 2001. Numerous published articles and speeches on trade secrets, corporate law, international law, admiralty and maritime law and estate planning.

**HONORS:** Honor's Program, U.S. Treasury Department, General Counsel's Office, 1973-1979.
A-V rated by Martindale-Hubbell.