Free Market Competition or Treason?

EMPLOYEE DUTY OF LOYALTY

A Precis for the Corporate Executive

First Edition

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APPENDICES

Loyal. *adj.* *Faithful to a person, ideal, custom, cause, or duty; of, relating to, or marked by loyalty....*

The American Heritage Dictionary, 4th Ed.

"I'll take fifty percent efficiency to get one hundred percent loyalty."

Samuel Goldwyn (1882-1974)

"Honesty is the best policy."

Don Quixote, Part ii, Chapter xxxiii. Miguel de Cervantes (1547-1616)

I. INTRODUCTION

What follows is an introduction to the issues raised by the law of employee duty of loyalty, and its relation to trade secrets and other proprietary business information. This area of the law often forms the basis for disputes arising between employers and their former employees. In particular, emphasis is placed upon those situations where ex-employees choose to compete in the same business with their former employers. It is this circumstance which seems to offer the greatest temptation for former employees to utilize wrongfully the information and knowledge gained in their prior positions, often to the detriment of their previous employer.

This work covers the topic of employee duty of loyalty with a broad brush. There will often be jurisdictional as well as judicial variations on the applicable law which must be considered. The Notes to Text are an integral part of this work and should be read along with the main text.

II. REAL WORLD COMPETITION MAY MEAN UNFAIR COMPETITION

"An act or practice is likely to be judged unfair only if it substantially interferes with the ability of others to compete on the merits of their products or otherwise conflicts with accepted principles of public policy recognized by statute or common law." *Restatement (Third) Unfair*

Competition § 1, comment g (1995). What would you do if faced with one of the following situations?

A) <u>The Exodus *en Mass*</u>

The owner of a highly successful real estate brokerage business decides to take an extended European vacation with her husband of 30 years. The brokerage utilizes six full-time sales people, none of whom have signed a non-compete agreement. While the owner is away she leaves the brokerage in the hands of the six sales people, most of who have been with the brokerage for several years. Sometime during the owner's vacation of a lifetime, all of the salespeople submit their written resignations. When the owner returns, the office is silent and the resignation letters are on her desk.

It appears, too, that some of the company's files have been left askew, and many of the salespersons' rolodexes are missing. The owner then learns that all her former salespeople are now working literally across the street, at a competing brokerage. She is unable to confirm the status of many of the pending sales and leads of which she knew prior to her vacation.

B) <u>The Flash-in-the-Pan Departure</u>

The corporation is one of only a handful of companies located in the United States which manufacturers and markets sophisticated teleconferencing devices which generally sell for tens of thousands of dollars. Often larger corporate customers are willing to spend well over one hundred thousand dollars for state of the art teleconferencing systems and appurtenances which even fewer companies can provide. The competition for these sales is keen.

The corporation has employed a sales manager of outstanding skill and reputation. He is highly paid and well worth the money. He knows the industry and the potential customers extremely well. As a manager who actively participates in large sales calls with junior salespersons, he is privy to some of the most sensitive information the corporation possesses, *i.e.*, pricing structures, profit margins and mark-up information for various products.

After a few years of phenomenal performance, the sales manager, without warning, suddenly resigns and announces that he will be working for a major competitor in the same position. At the time of his resignation, there is pending a potentially major sale which the sales manager and a junior salesperson had been working for many months. Many hundreds of hours of design work, demonstrations, wining and dining, and much travel have gone into the sales proposal. The deal was very close to closing when the sales manager left the company.

A few days after the sales manager's departure, the customer contact for the potential major sale spoke to the junior sales person and demanded a price reduction which was very close to the company's mark-up figure on the proposed sale of the equipment. The customer contact made clear that without the requested reduction, there would be no sale.

C) <u>The Entrepreneur Within</u>

A small environmental testing and consulting business employs only ten people. Because the company is very busy but small, each employee wears several hats. One such person, a project manager, sells consulting services and oversees actual testing, but lacks the necessary qualifications and license in order to satisfy state regulators. Thus, he cannot "sign off" on completed projects. This status is critical to the company and allows it to obtain high-end environmental consulting projects which are extremely profitable. There is some friction between the project manager and the company president since the president feels he must step in too often to finish projects.

The president decides to hire a new person. The company pays several thousand dollars to send the new person to school to obtain the requisite license. In the meantime, the new person is trained in all other aspects of the business by the unlicensed project manager. They become close friends through this work association.

The unlicensed project manager is also its informal "IT" manager. Each week he updates the company's computer files which contain its client lists, vendor information and pricing schedules, as well as all its financial information, including the salaries of all employees. The project manager does this work at home using a laptop supplied by the company.

One day after work the project manager and the new person are having drinks. The new person has now received her license and is working out well. The project manager tells the new person he is planning on leaving to start his own environmental consulting business. He shows her a business plan and stationary, new business cards, etc. that he has already made up. He tells her he needs her ability to sign off on projects and can offer her more money. She agrees to go with him. The next day they both submit their resignations.

NB. Each one of these scenarios is drawn from an actual case prosecuted by the author on behalf of the former employer. The legal actions taken, as well as the outcomes of same, appear at Section XI, *infra.*

III. SOME PRINCIPLES GOVERNING EMPLOYEE DUTY OF LOYALTY

Historically, the public interest has favored free trade and the ability of employees to engage in competition by moving about at will. See *e.g., Nordenfeldt* v. *Maxim Nordenfelt Guns & Ammunition Co.*, [1894] A.C. 535 at 565 ("[t]he public have an interest in every person's carrying on his trade freely: so has the individual. All interference with individual liberty of action in trading, and all restraints of trade themselves, if there is nothing more, are contrary to public policy and therefore void. That is the general rule") cited in *Consolidated Engineering Services* v. *Hatfield*, pp. 3-4, Suffolk Superior Court, C.A. No. 03-2689, Business Litigation Session 2 (Botsford, J.)[1] See also *Restatement (Third) Unfair Competition* § 1, comment a ("[t]he freedom to engage in business and to compete for the patronage of prospective customers is a fundamental premise of the free enterprise system.")

The at-will employee may plan to go into competition with his employer and may take active steps to do so while still employed. The at-will employee has no general duty to disclose such plans to his employer, either before or after he resigns. At-will employees may change employers freely. *Augat, Inc.* v. *Aegis*, Inc., 409 Mass. 165, 172 (1991).[2]

Certain limits apply, however, to the conduct of at-will employees who wish to compete with their employers. Employees cannot appropriate their former employer's trade secrets and other confidential business information. They may not solicit their employer's customers while still working for the employer. *Id.* An at-will employee also may not act for his own future interests at the expense of his employer by using his employer's funds or other resources for personal gain, or otherwise engage in a course of conduct designed to hurt the employer. *Id.* at 173.[3] The Restatement (Second) of Agency provides a rule governing confidential information belonging to the employer:

> Unless otherwise agreed, an agent is subject to a duty to the principal not to use or to communicate information confidentially given him by the principal or acquired by him during the course of or on account of his agency or in violation of his duties as agent, *in competition with or to the injury of the principal,* on his own account or on behalf of another, although such information does not relate to the transaction in which he is then employed, unless the information is a matter of general knowledge.

Restatement (Second) of Agency § 395 (1957) (emphasis added). Comment a to this section adds:

> The relation of principal and agent permits and requires great freedom of communication between the principal and the agent; *because of this, the agent is often placed in a position to obtain information of great use in competing with the principal.* To permit an agent to use, for his own benefit or for the benefit of others in competition with the principal, information confidentially given or acquired by him in the performance of or because of his duties as agent would tend to destroy the freedom of communication which should exist between the principal and the agent.

Before terminating employment, managerial personnel may not solicit the departure of employees – particular key employees – to work for a competitor. Doing so is a violation of management's duty of loyalty to the corporation. *Id.* at 173. See also *Chelsea Industries, Inc.* v. *Gaffney, et. al.*, 389 Mass. 1, 11-12 (1983) ("[b]ecause he is bound to act solely for his employer's benefit in all matters within the scope of his employment ... an executive employee is 'barred from actively competing with his employer *during* the tenure of his employment, even in the absence of an express covenant so providing ....'") (emphasis in the original) (citations omitted). Compare *Restatement (Second) of Agency* § 393, comment e ("[A] court may find that it is a breach of duty for a number of key officers or employees to leave their employment simultaneously ...") [4]

IV. TRADE SECRETS AND CONFIDENTIAL BUSINESS INFORMATION

In keeping with the historical emphasis on promoting market competition, an employee is free to "carry away and use the general skill or knowledge acquired during the course of employment." *Dynamics Research Corp.* v. *Analytic Sciences Corp.*, 9 Mass. App. Ct. 254, 269 (1980). He may not, however, compete with his former employer by using the trade secrets or other confidential business information of his former employer. *Richmond Brothers, Inc.* v. *Westinghouse Broadcasting Company, Inc.*, 357 Mass. 106, 111 (1970).[5] The term "trade secret" has been defined variously as follows:

> A trade secret may consist of any formula, pattern, device or compilation of information which is used in one's business, and which gives him [or her] an opportunity to obtain an advantage over competitors who do not know or use it.

J.T. Healy & Son v. *James A. Murphy & Son*, 357 Mass. 728, 736 (1970) citing *Restatement of Torts* § 757, comment b (1939). A more recent statement of the law in this area does away with the "used in one's business" requirement, thereby providing a broader, more functional definition:

> A trade secret can consist of a formula, pattern, compilation of data, computer

> program, device, method, technique, process, or other form or embodiment of economically valuable information. A trade secret can relate to technical matters such as the composition or design of a product, a method of manufacture, or the know-how necessary to perform a particular operation or service. A trade secret can also relate to other aspects of business operations such as pricing and marketing techniques or the identity and requirements of customers.

Restatement (Third) Unfair Competition § 39, comment d (1995). The term "trade secret" is defined in the Massachusetts General Laws as "anything tangible or intangible or electronically kept or stored, which constitutes, represents, evidences, or records a secret scientific, technical, merchandising, production, or management information, design, process, procedure, formula, invention or improvement." G. L. c. 266, § 30(4) (a statute imposing criminal liability for trade secret theft.) See also *e.g.*, *Peggy Lawton Kitchens, Inc.* v. *Hogan*, 18 Mass. App. Ct. 937 (1984) (chaff from walnuts added to chocolate chip cookie mix to produce "distinctive flavor" constituted trade secret.)

Business information which does not rise to the level of a "trade secret" *per se*, yet which may be protected as proprietary, includes specific business plans, financials, contract bid amounts, plans for expansion, customer lists, customer routes and the like. Some of the information at issue in the case scenarios in Section II, *supra*, for example, included the following: customer lists and leads; product pricing and profit margins on specific products; the status of specific bids and sales proposals; financial information and customer profiles and specific customer needs. The *sine qua non* of such proprietary information is secrecy. *Restatement (Third) Unfair Competition* § 39, comment f (1995) ("the requirement of secrecy is satisfied if it would be difficult or costly for others who could exploit the information to acquire it without resort to the wrongful conduct ....") [6]

The following criteria have been used to determine whether business information qualifies as a trade secret or otherwise should be treated as confidential and proprietary:

1) the extent to which the information is known outside the particular

business at issue;

2) the extent to which the information is known to employees and others within the company itself;

3) the extent of the measures taken by the company to guard the secrecy of the information;

4) the value of the information to the company;

5) the amount of effort or money expended in developing the information;

6) the ease or difficulty with which the information could be properly acquired or duplicated by others.

Jet Spray Cooler, Inc. v. *Crampton*, 361 Mass. 835, 840 (1972).[7] "[T]he subject matter of a trade secret must be secret. Matters of public knowledge or of general knowledge in an industry cannot be appropriated by one as secret." *Restatement of Torts* § 757, comment b. In particular circumstances, however, "routine data" belonging to a particular company may be considered confidential. For instance, information such as a company's sales locations may appear public and non-confidential; however, "whether and to what extent a [certain] location is profitable is highly confidential." *United Rug Auctioneers, Inc.* v. *Arsalen, et. al.*, Massachusetts Superior Court, C.A. No. 03-0347.[8]

Perhaps the most enduring judicial statement on the protection of business information not rising to the level of a technical trade secret can be found in *USM Corporation* v. *Marson Fastener Corporation, et. al.*, 379 Mass. 90, 104 (1979):

> A plaintiff who may not claim trade secret protection either because it failed to take reasonable steps to preserve its secrecy or because the information, while confidential, is only "business information," may still be entitled to some relief against one who improperly procures such information. The law puts its imprimatur on fair dealing, good faith, and fundamental honesty. Courts condemn conduct which fails to reflect these minimum accepted moral values by penalizing such conduct whenever it occurs. *Seismograph Serv. Corp. v.*

> *Offshore Raydist, Inc.*,135 F. Supp. 342, 354-355 (E.D. La. 1955), modified on other grounds, 263 F.2d 5 (5th Cir. 1958) ("It is simply the difference between right and wrong, honesty and dishonesty, which is the touchstone in an issue of this kind.")...See also *Crocan Corp. v. Sheller-Globe Corp.*, 385 F. Supp. 251, 254-255 (N.D. Ill. 1974) ("improper means used to gain information is a separate basis of liability, regardless of whether the information constitutes a technical trade secret").

See also *Restatement of Torts* § 759, comment b (1939) ("Examples of [confidential information], other than trade secrets,...are: the state of one's accounts, the amount of his bid for a contract, his sources of supply, his plans for expansion or retrenchment, and the like. *There are no limits as to the type of information included except that it relate to the matters in his business. Generally, however, ... the information must be of a secret or confidential character.*")

The *Restatement (Second) of Agency* § 396 (1957) offers the following general rule governing the use of confidential business information after the employee leaves his employer:

> Unless otherwise agreed, after the termination of the agency, the agent:
>
> (a) has no duty not to compete with the principal;
>
> (b) *has a duty to the principal not to use or to disclose to third persons, on his own account or on account of others, in competition with the principal or to his injury, trade secrets, written lists of names, or other similar confidential matters given to him only for the principal's use or acquired by the agent in violation of duty. The agent is entitled to use general information concerning the method of business of the principal and the names of the customers retained in his memory, if not acquired in violation of his duty as agent;*
>
> (c) has a duty to account for profits made by the sale or use of trade secrets and other confidential information, whether or not in competition with the principal[.]

(Emphasis added.) See also *Merrill, Lynch, Pierce, Fenner & Smith, P.C.* v. *Morgan Dewey*, (Mass Super. 04-1005) (2004) (refusing to prohibit defendant ex-employee from soliciting employer's customers retained in his memory). The comment to Clause (b) of § 396, above, adds the following insights:

> *The duty of an agent not to compete with the principal by using for his own purposes unique assets of the business, such as*

trade secrets, which are frequently of great value as long as they remain secret, does not terminate with the employment. Such assets a former agent cannot properly use for his own purposes.

(Emphasis added.) The comment to Clause (c) § 396 provides:

> Trade secrets and other similar private information constitute assets of the principal. *Their subsequent use by a former agent is as improper as the use of other assets, and, whether or not the use is in competition, it is the basis for a restitution claim*[.]

(Emphasis added.) The secrecy necessary to adequately protect trade secrets need not be absolute. "Reasonable precautions to protect the secrecy of a trade secret will suffice." *Pioneer Hi-Bred International* v. *Holden Foundation Seeds, Inc., et. al.*, 35 F.3d 1226, 1235 (8th Cir. 1994). Trade secret owners are not required to "guard against the unanticipated, the undetectable, or the unpreventable methods of espionage now available," or create "an impenetrable fortress." *E.I. duPont deNemours & Co.* v. *Christopher*, 431 F.2d 1012, 1016-1017 (5th Cir. 1970). See also *K-2 Ski Co.* v. *Head Ski Co.*, 506 F.2d 471, 473 (9th Cir. 1974) (describing steps taken to protect details on design and manufacture of skis).

V. THE PRELIMINARY STEPS DOCTRINE: LIABILITY'S BRIGHT LINE OR TRIP-LINE?

What steps, if any, may an employee take in preparation to compete with his current employer? Section 393 of the *Restatement (Second) of Agency* (1957) offers the following precepts:

> Unless otherwise agreed, an agent is subject to a duty not to compete with the principal concerning the subject matter of his agency.

See *Restatement (Second) of Agency* § 393 (1957). Comment e to section 393 provides:

> Even before the termination of the agency [the employee] *is entitled to make arrangements to compete*, except that he cannot properly use confidential information peculiar to his employer's business and acquired therein. Thus, before the end of his employment, he can properly purchase a rival business and upon termination of employment immediately compete. *He is not, however, entitled to solicit customers for such rival business before the end of his employment*

> *nor can he properly do other similar acts in direct competition with the employer's business.*

See Restatement (Second) of Agency § 393, comment e (emphasis added). What "arrangements," then, may an employee make lawfully in preparation to compete? The answer is not always clear. In *Maryland Metals, Inc.* v. *Metzner, et. al.*, 282 Md. 31 (1978) the Maryland Court of Appeals faced the following issue head-on: "[T]he extent to which officers and high-level managerial employees may, prior to termination of the employment relationship, make preparations to compete with their corporate employer without violating fiduciary obligations running to the corporation." The *Maryland Metals* court recognized the inherent tension between the employee's freedom to pursue competitive endeavors and the employer's right to expect and receive undivided loyalty:

> Admittedly the mere decision to enter into competition will eventually prove harmful to the former employer but because of the competing interests of allowing an employee some latitude in switching jobs and at the same time preserving some degree of loyalty owed to the employer the mere entering into competition is not enough. It is something *more than preparation* which is so harmful as to *substantially hinder* the employer in the continuation of his business.

Maryland Metals, Inc., 282 Md. at 39-40, citing *Cudahy Company* v. *American Laboratories, Inc.*, 313 F. Supp. 1339, 1346 (D. Neb. 1970) (emphasis added). In *Maryland Metals,* two high-ranking employees of a scrap metal business – one an officer of the corporation – undertook in secret extensive preparations to establish a competing business. The concept for the competing enterprise had been discussed between the corporation's president and the employees, but had never come to fruition. Specifically, the two employees did the following while still working for Maryland Metals: 1) formed a new corporation; 2) negotiated with a potential investor; 3) applied for a bank loan to finance the new venture; 4) purchased a specialized metal shredding machine which they had analyzed for Maryland Metals; 5) purchased land for the new business which Maryland Metals had once considered buying; and 6) consulted with various vendors and suppliers. At no time did the employees reveal these activities to their employer. In fact, they took active steps to conceal their preparatory dealings. There was no evidence, however, that either employee's job performance suffered as a result of the extensive plans to compete. In fact, each employee's performance remained exemplary throughout the preparations period.

The Maryland Court of Appeals found that the employees violated no obligations to their employer, despite having made such extensive preparations to leave and compete directly with it:

> We hold that [the employees'] conduct here falls within the mere preparation privilege accorded employees contemplating termination of employment. Looking beyond the mere failure to disclose the details of their preparations, we have been unable to find in the record any evidence of such unfair, fraudulent or wrongful conduct on the part of [the employees] as would entitle [the employer] to relief in the form of an injunction, damages or an accounting for profits.

Maryland Metals, Inc., 282 Md. at 48. The *Maryland Metals* court did point out that "[t]he right to make arrangements to compete is by no means absolute and the exercise of the privilege may, in appropriate circumstances, rise to the level of a breach of an employee's fiduciary duty of loyalty." *Maryland Metals, Inc.*, 282 Md. at 40. The Court of Appeals offered several examples of conduct which will defeat the privilege: misappropriation of trade secrets; misuse of confidential information; solicitation of the employer's customers prior to cessation of employment; conspiracy to bring about mass resignation of employer's key employees; and usurpation of the employer's business opportunities. *Maryland Metals, Inc.*, 282 Md. at 40-41. See also *C-E-I-R, Inc.* v. *Computer Dynamics Corporation, et. al.*, 229 Md. 357, 367 (1962) ("[t]here would appear to be no precise line between acts by an employee which constitute mere preparation and those which amount to solicitation"); *E.J. McKernan Company, et. al.* v. *Gregory*, 252 Ill. App. 3d 514, 529 (1993) ("[c]orporate officers owe a fiduciary duty of loyalty to their employer not to: (1) actively exploit their positions within the corporation for their own personal benefit; or (2) hinder the ability of the corporation to conduct the business for which it was developed"); *Bancroft-Whitney Company* v.

Glen, 411 P.2d 921, 935 (1966) ("[n]o ironclad rules as to the type of conduct which is permissible can be stated, since the spectrum of activities in this regard is as broad as the ingenuity of man itself").

In stark contrast to the behavior of the employee-defendants in *Maryland Metals* was that of the executives in *Chelsea Industries, Inc.* v. *Gaffney*, 389 Mass. 1 (1983). In *Chelsea Industries*, the executive defendants unlawfully prepared to compete with their present employer by: (1) traveling to the company's foreign plant at company expense to photograph its plans and manufacturing machinery for the competing venture; (2) visiting and entertaining at company expense their employer's major customers and sales personnel in order to "cultivate close personal relationships ... to assist them in taking away business from [their employer] when their own competing business became operational;" and, (3) using confidential company sales information to assess the future sales potential of the competing venture. *Chelsea Industries, Inc.* v. *Gaffney*, 389 Mass. at 6-7. The *Chelsea Industries* court actually ordered the disloyal executives to pay back part of their employee compensation as a sanction for their blatantly illegal behavior – a remedy known as equitable forfeiture.

Notably, some courts have held that an employee's resignation alone may not relieve him of his fiduciary obligations to his former employer. In *T.A. Pelsue Company* v. *Grand Enterprises, Inc., et. al.*, 782 F. Supp. 1476 (D. Colo. 1991), the district court made the following observation:

> Resignation or termination does not automatically free a director or employee from his or her fiduciary obligations. A former director breaches his or her fiduciary duty if he or she engages in transactions that had their inception before the termination of the fiduciary relationship of that were based on information obtained during that relationship

T.A. Pelsue Company, 782 F. Supp. at 1485. "Fairness dictates that an employee not be permitted to exploit the trust of his employer so as to obtain an unfair advantage in competing with the employer in a matter concerning the latter's business." *Kademenos* v. *Equitable Life Assurance*

Soc. of U.S., 513 F.2d 1073, 1076 (3rd Cir. 1975); Restatement (Second) of Agency § 387, comment b (1957).

VI. THE UNIFORM TRADE SECRETS ACT: A PANACEA AT LAST?

Thirty-four states have adopted the Uniform Trade Secrets Act ("UTSA"). "Like traditional trade secret law, the Uniform Act contains general concepts. The contribution of the Uniform Act is substitution of unitary definitions of trade secret and trade secret misappropriation…." Uniform Laws Annotated (West). The UTSA defines a trade secret as:

> [I]nformation, 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, section 1(4) (1985 amendments) (emphasis added). The official comment to this section points out that "proper means" may include independent discovery, "reverse engineering," and observation of items in public use. The official comment also explains that the Uniform Act provides a broader definition of "trade secret" than did the Restatement of Torts (First) which required that a trade secret be "continuously used in one's business." Thus:

> The broader definition [of "trade secret"] ...extends protection to a plaintiff who has not yet had an opportunity or acquired the means to put a trade secret to use. The definition includes information that has commercial value from a negative viewpoint, for example the results of lengthy and expensive research which proves that a certain process will *not* work could be of great value to a competitor.

See Official Comment to UTSA, Section 1 (emphasis in original). The comment makes the further observation that:

> The efforts required to maintain secrecy are those "reasonable under the circumstances." The courts do not require that extreme and unduly expensive procedures be taken to protect trade secrets against flagrant industrial espionage. .. It follows that reasonable use of a trade secret including controlled disclosure to employees and licensees is consistent

with the requirement of relative secrecy.

Official Comment, USTA Section 1. See Volume 14, *Uniform Laws Annotated, Uniform Trade Secrets Act*, pp. 438-439 (West). The USTA allows for injunctive relief in cases of "[a]ctual or threatened misappropriation." USTA, Section 2. The general principle here "is that an injunction should last for as long as necessary ... to eliminate the commercial advantage or 'lead time' with respect to good faith competitors that a person has obtained through misappropriation." Official Comment, USTA Section 2. *Id.* at 450. The USTA allows for an award of attorneys fees in instances of "willful and malicious misappropriation." See USTA, Section 4. *Id.* at 459. The Uniform Act also allows for up to twice actual damages. See USTA, Section 3. This section provides:

> In lieu of damages measured by any other methods, the damages caused by misappropriation may be measured by imposition of liability for *a reasonable royalty* for a misappropriator's unauthorized disclosure or use of a trade secret.

USTA, Section 3 (emphasis added). *Id.* at 456. The Official Comment to this section states:

> As an alternative to all other methods of measuring damages caused by a misappropriator's past conduct, a complainant can request that damages be based upon a demonstrably reasonable royalty for a misappropriator's unauthorized disclosure or use of a trade secret. In order to justify this alternative measure of damages, there must be competent evidence of the amount of a reasonable royalty.

Official Comment, USTA Section 3. *Id.* at 456. Under the USTA, the term "misappropriation" is quite extensive and somewhat formulaic. Consequently, common law jurisdictions may take a more flexible approach to finding violations of employee duty of loyalty relative to trade secrets.

VII. EMPLOYMENT AGREEMENTS WITH RESTRICTIVE COVENANTS

Restrictive covenants in written employment contracts are judicially enforceable if the employer can demonstrate that:

1) the agreement is necessary to protect a legitimate business interest of the employer;

2) supported by consideration;

3) reasonable in scope;

4) is consistent with the public interest.

All Stainless, Inc. v. Colby, 364 Mass. 773, 778 (1973).[9] Examples of non-disclosure (*i.e.*, confidentiality), non-solicitation, and non-competition covenants in written employment agreements which have been upheld in recent Massachusetts Superior Court decisions are attached hereto in Appendix C. A recent Massachusetts Superior Court decision enforced a non-competition clause in a written employment agreement providing for a twenty-four month restriction on ex-employees' would-be competing activities. See *United Rug Auctioneers, Inc.* v. *Arsalen*, et. al., Superior Court Civil Action No. 03-0347 (Brady, J.)

The benefits of a written agreement are, *inter alia*, that it puts employees on notice as to which aspects of the business the employer considers proprietary, confidential or otherwise a part of the goodwill of the company. Moreover, a written employment agreement with restrictive covenants provides a valuable framework for a civil complaint should the need arise for same. For instance, such an agreement may stipulate that unauthorized disclosure of trade secrets and confidential information will result in irreparable harm to the company, an essential element for injunctive relief in duty of loyalty cases. See *e.g.*, *Stone Legal Resources Group, Inc.* v. *Glebus, et. al.*, 2002 Mass. Super. LEXIS 555.

Legitimate business interests which may properly be the subject of restrictive covenants in written employment agreements include protection of trade secrets, confidential information, and business goodwill. Goodwill is defined as a business's positive reputation with its customers or potential customers generated by repeat business with existing customers or by referrals to potential customers. *Kroeger* v. *The Stop & Shop Companies, Inc.*, 13 Mass. App. Ct. 310, 316 (1982). Goodwill may also be shown by demonstrating particular expertise in a defined area, as well as significant advertising. *Marine Contractors Co., Inc. v. Hurley*, 365 Mass. 280, 287 (1974); *Slate Co.* v. *Bikash,* 343 Mass. 172, 175 (1961).[10] "[P]rotection of the employer from ordinary competition ...is not a legitimate business interest, and a covenant not to compete designed solely for that purpose will not be enforced." *Marine Contractors*, 365 Mass at 287.

Practicing physicians and attorneys, as a matter of public policy, are not subject to the strictures of non-competition agreements. See *e.g.*, G.L. c. 112, § 12X; *Meehan* v*. Shaughnessy*, 404 Mass. 419, 431 (1989) ("...a lawyer may not participate in an agreement which restricts the right of a lawyer to practice law after the termination of a relationship created by the agreement. One reason for this rule is to protect the public...The strong public interest in allowing clients to retain counsel of their choice outweighs any professional benefits derived from a restrictive covenant.") (Citations omitted.)

VIII. WHO NEEDS A RESTRICTIVE COVENANT? THE "INEVITABLE DISCLOSURE" DOCTRINE AND THE JUDICIALLY CREATED NON-COMPETE "AGREEMENT"

The absence of a written employment agreement with restrictive covenants may not be fatal to the cause of an employer trying to prohibit proprietary and confidential business information from being used by an ex-employee to compete unfairly. In some jurisdictions courts have fashioned restrictive employment agreements *ex post facto* where clear violations of employee duty of loyalty have been demonstrated. An excellent example of such judicial intervention is found in *DoubleClick* v*. Henderson, et. al.,* 1997 N.Y. Misc. Lexis 577. (See Appendix D for full text of opinion.)

DoubleClick was a new, fast-growing Internet advertising business. The company had two types of clients: 1) a network of 75 popular web sites with respect to which it had an agreement to sell advertising space on the sites, and 2) individual advertisers who had separate contracts with

DoubleClick which allowed them to shown their ads on the web site network without having to negotiate access to each web site.

DoubleClick had developed proprietary methods of delivering ads to the web sites in its network, as well as systems which caused certain ads to "pop up" when specified search terms were used. The company also developed proprietary methods to gauge the effectiveness of its advertisements. The company maintained various sources of proprietary information such as sales and marketing strategies, customer requirements, financial projections, and a business plan which discussed long-term goals and strategies.

Two top managers with access to all of the above-described company information decided to leave DoubleClick and start their own competing business. They began preparations to do so while still employed at the company. When DoubleClick learned of their plans, it fired both managers and confiscated their laptops, where, it discovered a competing business plan and other strategic documents. It promptly went to court to enjoin the competing business. *It should be noted that neither ex-manager had signed a confidentiality agreement or non-compete which pertained to their employment with DoubleClick.*

DoubleClick asserted the following counts in its complaint against the ex-managers and their new competing venture: misappropriation of trade secrets, unfair competition, and breach of duty of loyalty. The court found that the two former executives had in fact misappropriated DoubleClick's trade secrets. In particular, the court noted that one of the executives had on his laptop a document showing the company's margins or "site share," *i.e.*, the percentage shares which it and a client web site split from advertising revenue. It appeared that the former executives intended to use this information to offer "better" deals to DoubleClick's clients.

The court also found that "the centrality of [the executives] in DoubleClick's operations makes it unlikely that they could eradicate" the trade secrets from their minds in the context of the competing venture. With regard to duty of loyalty issues, the court noted the following: the executives had used DoubleClick's computers, e-mail and spread sheets to build their own competing business plan. The executives – while still employed by DoubleClick - had also met with a potential DoubleClick client, pitched the client for DoubleClick, and then, immediately thereafter, pitched the prospective DoubleClick client for their new venture.

In agreeing to fashion equitable relief in favor of DoubleClick, the court found the following preliminary facts which constituted liability for misappropriation of trade secrets, breach of duty of loyalty, and unfair competition:

> [T]here is substantial evidence that defendants 1) used DoubleClick's proprietary information to prepare for the launch of [the competing venture] and to position it to compete with DoubleClick, 2) worked on their plans for their new company during working hours at DoubleClick and used resources given to them by Double Click to do so, and 3) sought customers and financing for [the competing venture] without regard to their duties to their current employer. (*DoubleClick*, page 7.)

The court fashioned the following remedy which in effect amounted to a judicially imposed non-compete/non-disclosure agreement, although none existed between DoubleClick and the ex-managers prior to suit:

> Defendants are enjoined, for a period of six months from the date of this opinion, from launching any company, or taking employment with any company, which competes with DoubleClick, where defendants' job description(s) or functions at said company or companies include providing any advice or information concerning any aspect of advertising on the Internet...
>
> ....
>
> Defendants are also enjoined, for a period of six months from the date of this opinion, from providing any advice or information concerning any aspect of advertising on the Internet to any third parties who 1) work for defendants' employer(s), or 2) provide or promise to provide any of the defendants with valuable consideration for the advice or information, or 3) share or promise to share any financial interest with any of the defendants. (*DoubleClick*, page 8.)

An excellent leading statement of the inevitable disclosure doctrine is found in *PepsiCo, Inc.* v. *Redmond, et. al.*, 54 F.3d 1262 (7th Cir. 1995). In *PepsiCo,* the employee signed a confidentiality agreement at the beginning of his employment, but not a non-compete. The employee's managerial position made him privy to *PepsiCo's* national and regional sports drink marketing strategies for the upcoming year. He was recruited for an equally high-level position by a direct competitor, Quaker Oats. In affirming the district court's grant of a preliminary injunction, the Court of Appeals effectively converted the ex-employee's confidentiality agreement into a non-compete, by preventing the ex-employee from working with the direct competitor for a period of six months. In so doing, the Court of Appeals found:

> [U]nless [the former employee] possessed an uncanny ability to compartmentalize information, he would necessarily be making decisions about Gatorade and Snapple by relying on his knowledge of [PepsiCo's] trade secrets. It is not the "general skills and knowledge acquired during his tenure with" PepsiCo that PepsiCo seeks to keep from falling into Quaker's hands, *but rather "the particularized plans or processes developed by [PepsiCo] and disclosed to him while the employer-employee relationship existed, which are unknown to others in the industry and which give the employer an advantage over his competitors."*

PepsiCo., 54 F.3d at 1269 (emphasis added) (citations omitted). The Court of Appeals also pointed out: "PepsiCo finds itself in the position of a coach, one of whose players has left, playbook in hand, to join the opposing team before the big game." *Id.* at 1270. See also *Lumex, Inc.* v. *Highsmith*, 919 F. Supp. 624, 631 (E.D.N.Y. 1996) ("there is not only a high risk, but it is inevitable that [defendant ex-employee] will disclose important Cybex trade secrets and confidential information in his efforts to improve the Life Circuit product, and aid his new employer and his own future.")

The inevitable disclosure doctrine has been soundly criticized. Some courts have argued that its application should be limited to instances of "overt theft of trade secrets and breaches of fiduciary duty." *EarthWeb, Inc.* v. *Schlack*, 71 F. Supp.2d 299, 310 (S.D.N.Y. 1999). The *EarthWeb* court also noted several specific problems with the doctrine's application:

> [I]n cases that do not involve the actual theft of trade secrets, the court is essentially asked to bind the employee to an implied-in-fact restrictive covenant based on a finding

> of inevitable disclosure.
>
> ....
>
> Thus, in its purest form, *the inevitable disclosure doctrine treads an exceedingly narrow path through judicially disfavored territory.* Absent evidence of actual misappropriation by an employee, the doctrine should be applied in only the rarest of cases. *Factors to consider in weighing the appropriateness of granting injunctive relief are whether: (1) the employers in question are direct competitors providing the same or very similar products or services; (2) the employee's new position is nearly identical to his old one, such that he could not reasonably be expected to fulfill his new job responsibilities without utilizing the trade secrets of his former employer; and (3) the trade secrets at issue are highly valuable to both employers.*
>
> While the inevitable disclosure doctrine may serve the salutary purpose of protecting a company's investment in its trade secrets, *its application is fraught with hazards.* Among these risks is the imperceptible shift in bargaining power that necessarily occurs upon the commencement of an employment relationship marked by the execution of a confidentiality agreement. When that relationship eventually ends, the parties' confidentiality agreement may be wielded as a restrictive covenant, depending on how the employer views the new job its former employee has accepted. This can be a powerful weapon in the hands of an employer; the risk of litigation alone may have a chilling effect on the employee. Such constraints should be the product of open negotiation.

EarthWeb, Inc., 71 F.Supp.2d at 310 (emphasis added). Thus, the inevitable disclosure doctrine may not always be available to provide relief other than in the most egregious of cases.

Some common law jurisdictions will grant injunctions to protect confidential and proprietary business information absent express agreements governing same. The justification for doing so rests on a theory of implied contract arising from the employer/employee relationship. See *e.g.*, *Woolley's Laundry, Inc.* v. *Silva*, 304 Mass. 383, 386 (1939) ("[o]ut of the mere general relationship of employer and employee certain obligations arise, including that which precludes an employee from using, for his own advantage or that of a rival and to the harm of his employer, confidential information that he has gained in the course of his employment.")

For example, in *New England Overall Co., Inc.* v. *Woltmann, et. al.*, 343 Mass. 69, 75 (1961) the plaintiff hired the defendant as its sales manager. Defendant was the first person outside of the family which owned the business "to have access to its innermost secrets." *Id.* at 72.

Specifically, the defendant Woltmann was privy to customer lists, supplier information, sales projections, costs and inventory information. *Id.* Defendant held this position for seven years until he and another sales employee secretly decided to compete with the plaintiff. Toward that end, Woltmann bought in his own name from the plaintiff's suppliers certain merchandise of the same design which plaintiff planned to introduce as part of its spring and summer clothing line. *Id.* at 73. Defendant did so intending to sell the merchandise to plaintiff's customers through a competing venture. The defendants – while still employed by plaintiff – also incorporated a competing entity through which they purchased additional merchandise from plaintiff's suppliers. A few months later both defendants resigned within ten days of each other. *Id.* at 74.

The Supreme Judicial Court recited the findings of the master appointed to hear the case:

> Shortly thereafter, the plaintiff learned that many of the confidential items and listings relating to customers and suppliers of the plaintiff were missing. The master found that Woltmann had taken them; and that Woltmann and [the other sales employee] were soliciting ...both customers and suppliers of the plaintiff. *They had obtained from the suppliers merchandise of a manufacture, style, and pattern which could not be distinguished from that sold by the plaintiff without careful examination, and were selling it at cut prices* which tended to destroy the plaintiff's trade reputation and good will established over many years. The master found that *it was difficult to ascertain the damage which has been done and will be done to the plaintiff's good will and reputation by the defendants' price cutting* and efforts to induce customers and suppliers to "break away" from the plaintiff.

Id. at 74. (Emphasis added.) The Court affirmed an injunction which prohibited the defendants from communicating with plaintiff's customers in the New England States as well as Pennsylvania, despite the fact that Woltmann had no written employment contract with plaintiff. "In situations where there has been no express contract of an employee not to use or disclose confidential information entrusted to him during his employment, this court has held that ... he may be enjoined from using or disclosing confidential information so acquired." *New England Overall Co., Inc.* v. *Woltmann, et. al.*, 343 Mass. 69, 75 (1961).[11]

IX. WHO TO SUE: SHOULD YOU TARGET THE NEW EMPLOYER ALONG WITH THE EX-EMPLOYEE, OR AVOID MAKING A MOUNTAIN OF A POTENTIAL MOLE HILL?

In employee duty of loyalty cases there may be claims against the new employer. The new employer may be held liable for misappropriation of trade secrets, as long as the new employer has notice of the ex-employee's nefarious activities in this respect. See *e.g. Curtiss-Wright Corporation* v. *Edel-Brown Tool & Die Co.*, 381 Mass. 1, 5-6 (1980).[12] The new employer may be liable for aiding and abetting breach of the ex-employee's fiduciary duties to his ex-employer. See *e.g., Spinner* v. *Nutt*, 417 Mass. 549, 556 (1994) ("[a]lthough liability arises when a person participates in a fiduciary's breach of duty ... the plaintiff must show that the defendant knew of the breach and actively participated in it such that he or she could not reasonably be held to have acted in good faith.") An action may also lie for intentional interference with contractual or advantageous business relations. See *Swanset Development Corp.* v. *Taunton*, 423 Mass. 390, 397 (1996).

There are practical considerations when targeting the new employer. For instance, a suit against the new employer may invite counterclaims (such as restraint of trade, G.L. c. 93, § 5, and abuse of process), as well as a harder-fought battle than desired. The new employer may bankroll the defense of the ex-employee. Moreover, it may be more difficult to limit or prevent the involvement of one's own customers in the litigation, particularly where the new employer may have solicited them independent of and prior to hiring the ex-employee.

As word and rumors of the litigation spread among customers, some may be "turned off" by what they perceive to be overly aggressive business tactics designed to stifle competition, or simply "sour grapes." Moreover, it may be easier to negotiate a compromise with the new employer concerning the status of the ex-employee and any confidential information he may possess if the new employer is not targeted directly as a defendant. Of course, because equity (in the form of injunctive relief) operates *in personam*, it may not be possible to obtain the full measure of relief and protection absent claims against the ex-employee's new company or venture.

X. A LIKELIHOOD OF SUCCESS ON THE MERITS: THE "SILVER BULLET" OF INJUNCTIVE RELIEF THAT MAY STOP DISLOYALTY IN ITS TRACKS

Injunctive relief is particularly appropriate in cases involving the protection of confidential and proprietary business information and customer goodwill. "[T]he loss of goodwill has been recognized as being particularly hard to quantify, giving rise to the need for equitable relief." *Stone Legal Resources* v. *Glebus*, 2002 Mass. Super. LEXIS 555, p. 8. As was noted in *Jillian's Billiard Club of America, Inc.* v. *Beloff Billiards, Inc.*, 35 Mass. App. Ct. 372, (1993):

> Injunctive relief is often appropriate in trade secret cases to insure against additional harm to the trade secret owner from further unauthorized use of the trade secret and to deprive the defendant of additional benefits from its wrongful conduct. If the information has not become generally known, an injunction may also be appropriate to prevent destruction of the plaintiff's rights in the trade secret through a public disclosure by the defendant.

Id. at 376, citing *Restatement of Unfair Competition* § 44(2) (Tent. Draft No. 4, 1993). See also *DoubleClick, Inc.* v. *Henderson, et al., 1997 N.Y. Misc. LEXIS 577.* ("[D]efendants' exploitation of their intimate knowledge of DoubleClick's proprietary information is impossible to quantify in dollar terms. Accordingly, an injunction is the appropriate remedy.")

The proponent of injunctive relief must demonstrate a likelihood of success on the merits of its substantive law claims; irreparable harm (*i.e.*, inadequacy of monetary damages in light of the goodwill interests at stake); that the balance of harms favors plaintiff rather than defendant; and that the public interest will be served by granting the requested relief. *Packing Indus. Group, Inc.* v. *Cheney*, 380 Mass. 609, 616, 617 (1980).[13]

XI. MONETARY DAMAGES FOR MISAPPROPRIATION SHOULD BE CONSIDERED

Damages for misappropriation of trade secrets and confidential information may be assessed as defendant's profits realized from his tortious conduct; plaintiff's lost profits; or a reasonable royalty. "[W]hile a plaintiff is not entitled to a double recovery, 'the plaintiff is entitled to the profit he would have made had his secret not been unlawfully used, but not less than the monetary gain which the defendant reaped from his improper acts.'" *Jet Spray Cooler, Inc.* v. *Crampton*, 377 Mass. 159, 170 (1979). Multiple damages may also be awarded pursuant to statute. See *e.g.*, G.L. c. 93, § 42 which provides in pertinent part:

> Whoever embezzles, steals or unlawfully takes, carries away, conceals, or copies, or by fraud or by deception obtains, from any person or corporation, with intent to convert to his own use, any trade secret, regardless of value, shall be liable in tort to such person or corporation for all damages resulting there from. *Whether or not the case is tried by a jury, the court in its discretion, may increase the damages up to double the amount found.*

Jet Spray Cooler, Inc. v. *Crampton*, 377 Mass. 159, 167 n. 8 (1979) (emphasis added).[14] See also *Analogic Corp.* v. *Data Translation, Inc.*, 371 Mass. 643, 649 (1976) ("defendants should not be permitted a competitive advantage from their avoidance of the normal cost of invention and duplication.") Despite the availability of money damages in duty of loyalty cases, injunctive relief nevertheless remains the quickest, most efficacious means of thwarting the machinations of would-be absconders of company proprietary information.

It is also worth noting that the federal Economic Espionage Act of 1996, 18 U.S.C. §§ 1831 – 1839, criminalized the theft or misappropriation of trade secrets for economic or commercial advantage. The Act defines a trade secret more broadly than does the UTSA:

> [T]he term "trade secret" means all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if –
>
> (A) the owner thereof has taken reasonable measures to keep such information secret; and
>
> (B) the information derives independent economic value, actual or potential, from not being generally known to, and not being

readily ascertainable through proper means by, the public.

18 U.S.C. § 1839. The Act has teeth. It allows not only for jail time for violators, but also for forfeiture. The Attorney General of the United States may also enforce the act civilly through injunctive relief. See 18 U.S.C. § 1836.

XII. HOLDING THE BIG GUNS IN RESERVE: A LITIGATION PREFACE WHICH SOMETIMES WORKS WHEN COOLER HEADS PREVAIL

Sometimes all it takes is the right letter and a frank discussion with the ex-employee of the potential consequences of walking off with confidential and proprietary business information. Attached hereto as Appendix E is a cease and desist letter (redacted) which was successful in dissuading a departed employee from utilizing confidential business information for the benefit of his new employer. Having a departing employee sign a reaffirmation of a confidentiality or non-solicitation/ non-compete agreement just prior to departure is also a useful way of reminding the employee of his legal obligations.

XIII. LITIGATION OUTCOMES OF THE "REAL WORLD" UNFAIR COMPETITION SCENARIOS DESCRIBED IN SECTION II, *INFRA*

A) The Exodus *en Mass*

The five sales representatives had signed a "Broker-Salesperson Independent Contractor Contract" which provided in pertinent part:

> The Salesperson shall not, after the termination of this contract, use to his own advantage, or to the advantage of any other person or corporation, any information gained for or from the files or business of the Broker.

The sales representatives also signed an acknowledgement sheet which stated that they had read and agreed to the contents of a company Procedures Manual which stipulated in part that all "listings and prospects which have been worked upon by [the broker] remain the whole and undisputed property of the Company at the time of separation."

In this case the plaintiff moved very quickly against the five former sales representatives. Although none had signed a formal non-compete, the court granted, *ex parte*, a Temporary Restraining Order against all five former salespersons which commanded in part that they:

> [D]esist and refrain from using, concealing, revealing, divulging, assigning or disseminating any document or any information concerning or relating to plaintiff's business; and *further from pursuing rentals, sales or other real estate services with any clients with whom you had any contact while associated with the plaintiff and/or with respect to which you became aware of while associated with the plaintiff*[.]

(Emphasis added.) (See Appendix B for the entire Restraining Order text.) The court also ordered that the sales representatives return to the company "any books, records, or other documents given to or acquired by you from plaintiff and any documents containing information taken from any such documents…." Unfortunately for the salespeople, they had planned a large party to introduce their new endeavor, inviting primarily plaintiff's clients and contacts as guests. In light of the above order, however, the party had to be cancelled. By its terms the restraining order expired in 10 days. When the court, after hearing, indicated its inclination to grant a preliminary injunction more or less mirroring the restraining order, the parties worked out a settlement agreement.

B) <u>The Flash-in the-Pan Departure</u>

While employed by the plaintiff company, the sales manager had signed an "Employee Proprietary Information and Inventions Agreement" which provided in part:

> I agree to keep confidential and not disclose, or make any use of except for the benefit of the Company … any trade secrets or confidential information of the Company relating to products, processes, know-how, designs, formulas, test data, customer lists, business plans, marketing plans and strategies and pricing strategies….

Throughout his employment with the company, the sales manager was routinely provided with computerized customer lists and pricing information, including gross margin and distribution information. Distribution of this information was limited to a select few sales employees and company principals. At a hearing on Plaintiff's motion for preliminary injunction, the court indicated it was inclined to grant the requested relief prohibiting the sales manager from calling on plaintiff's customers or otherwise using the confidential sales information of the company. With this in mind, the parties worked out a stipulated injunction which entered with the court's imprimatur.

C) The Entrepreneur Within

The departing project manager *had not signed a non-compete/confidentiality agreement with the plaintiff company*. Nevertheless, the plaintiff company sought and obtained an injunction prohibiting the ex-employee and his new company from taking affirmative steps to contact any of the former employers' clients for a period of one year. Also, the defendants returned dozens of CD's containing client lists and other proprietary information belonging to the plaintiff company.

XIV. SUGGESTIONS FOR STAYING OUT OF TROUBLE

Make written employment agreements containing restrictive covenants a part of the employment relationship *from the outset*.[15] Also, spell out the type of information considered to be confidential and proprietary by the employer.[16] Limit employee access to sensitive information used in the operation of the business, and put all employees on notice that certain kinds of information will be imparted to employees only on a need-to-know basis. Make sure employees understand that company property – including intellectual property – must be returned to the employer prior to departure. In particular, the use and whereabouts of items like sales manuals, training manuals and other writings discussing business plans and company processes should be routinely monitored. Even "lower level" employees may need to sign non-disclosure agreements if they work in and around highly sensitive business information or machinery.

- Notes to Text -

1. The *Nordenfeldt* passage continues: "But there are exceptions: restraints of trade and interference with individual liberty of action may be justified by the special circumstances of a particular case."

   Massachusetts in essence adopted this proposition in *Sherman* v. *Pfefferkorn*, 241 Mass. 468, 474 (1922):

   > It clearly follows that Pfefferkorn was rightly enjoined from soliciting ... patronage of customers of the plaintiff, the names of whom had become known to him in the course of and by reason of his employment, and from disclosing the names or using, to the detriment of the plaintiff, information or knowledge regarding the ... business which had been confidentially gained by him in the course of his employment.

2. See also *Meehan* v. *Shaughnessy*, 404 Mass. 419, 435 (1989) ("fiduciaries may plan to compete with the entity to which they owe allegiance, 'provided that in the course of such arrangements they [do] not otherwise act in violation of their fiduciary duties.'") (Citation omitted.)

   Consider *Restatement of Unfair Competition* § 42, comment b (1995):

   > During the duration of an employment relationship, an employee is subject to a duty of loyalty applicable to all conduct within the scope of the employment. See Restatement, Second, Agency § 387. The duty of loyalty encompasses a general duty not to compete with the employer in the subject matter of the employment ... including a duty to refrain from using confidential information acquired through the employment in competition with the employer.

3. For particularly egregious examples of the proscribed behavior exhibited by corporate officers and management employees see: *New England Overall Co., Inc.*, v. *Woltmann, et. al.*, 343 Mass. 69, 75 (1961) where the corporate officer established and operated a competing business while still employed by corporation; *Chelsea Industries, Inc.* v. *Gaffney*, 389 Mass. 1 (1983) where corporate officers preparing to compete with employer continually subordinated employer's interest to that of prospective competing venture.

4. Other proscribed behavior of corporate officers may include: using paid work time to plan a competing venture; recommending salary increases and maximum bonuses for disloyal employees planning to leave with the officers; traveling at company expense to cement personal relationships with

employer's customers in order to secure customers for competing venture after departure. See *e.g.*, *Chelsea Industries, Inc.* v. *Gaffney*, 389 Mass. 1, 11 (1983).

5. For more on this issue see *Richmond Brothers, Inc.* v. *Westinghouse Broadcasting Company, Inc., et. al.*, 357 Mass. 106, 111 (1970) citing *Club Aluminum Co.* v. *Young*, 263 Mass. 223, 226-227:

> [A]n employer cannot by contract prevent his employee from using the skill and intelligence acquired or increased and improved through experience or through instruction received in the course of the employment. The employee may achieve superiority in his particular department by every lawful means at hand, and then, upon the rightful termination of his contract for service, use that superiority for the benefit of rivals in trade of his former employer.

"'[A] man's aptitudes, his skill, his dexterity, his manual or mental ability ...ought not to be relinquished by a servant; they are not his master's property; they are his own property; they are himself.'" *Richmond Brothers, Inc.*, 357 Mass. at 111, citing *Herbert Morris, Ltd.* v. *Saxelby*, 1 [1916] A.C. 688, 714.

"Application of the rules protecting trade secrets in cases involving competition by former employees requires a careful balancing of interests. There is a strong public interest in preserving the freedom of employees to market their talents and experience in order to earn a livelihood. The mobility of employees also promotes competition through dissemination of useful skills and information." *Restatement of Unfair Competition* § 42, comment b (1995).

Compare *Aronson* v. *Orlov*, 228 Mass. 1, 5 (1917) ("[E]quity will enjoin interference with the right of a manufacturer to his own trade secrets ... There is a plain distinction between instances where employees leave one employer and use their own faculties, skill and experience in the establishment of an independent business or in the service of another, and instances where they use confidential information secured solely through their employment to the harm of their previous employer.")

6. "Indeed, the duty not to use confidential information is not limited to technical trade secrets." *Jet Spray Cooler, Inc. v. Crampton*, 361 Mass. 835, 839-840 (1972).

The *Restatement of Unfair Competition* § 39 comment g offers the following on precautions to maintain secrecy of confidential information:

> Precautions to maintain secrecy may take many forms, including physical security designed to prevent unauthorized access, procedures intended to limit disclosure based upon the "need to know," and measures that emphasize to

recipients the confidential nature of the information such as nondisclosure agreements, signs, and restrictive legends.

7. See also *USM Corporation* v. *Marson Fastener Corporation, et. al.*, 379 Mass. 90, 101 (1979) ("We do not require the possessor of a trade secret to take heroic measures to preserve its secrecy.")

"The question whether a plaintiff has taken 'all proper and reasonable steps' depends on the circumstances of each case, considering the nature of the information sought to be protected *as well as the conduct of the parties." Id.* (Emphasis in the original.)

"It is not possible to state precise criteria for determining the existence of a trade secret. The status of information claimed as a trade secret must be ascertained through a comparative evaluation of all the relevant factors, including the value, secrecy, and definiteness of the information as well as the nature of the defendant's misconduct." *Restatement of Unfair Competition* § 39, comment d (1995).

8. For an example of reasonable steps taken by an employer to protect its trade secrets see *Eastern Marble Products Corp.* v. *Roman Marble, Inc., et. al.*, 372 Mass. 835, 840 (1977) ("Each manufacturing employee ... was required to sign an agreement not to disclose the methods and procedures involved in the manufacturing processes .... Such an agreement cannot be disregarded as an empty formality. At the very least it put the employees on notice that secrets were involved.")

9. "The consequence of every covenant not to compete ... is that the covenantor is deprived of a possible means of earning his living, within a defined area and for a limited time. That fact alone does not make such covenants unenforceable." *Marine Contractors Co., Inc.,* v. *Hurley*, 365 Mass. 280, 289 (1974).

10. "The former employee must be in a position where he can harm that good will .... [P]erhaps ... because the former employee's close association with the employer's customers may cause those customers to associate the former employee, and not the employer, with products of the type sold to the customer through the efforts of the former employee." *All Stainless, Inc. v. Colby*, 364 Mass. 773, 779-780 (1974).

11. See also *Eastern Marble Products Corp. v. Roman Marble, Inc.*, 372 Mass. 835, 841 (1977) ("It is settled by our cases that the duty of an employee not to disclose confidential information is grounded on 'basic principles of equity' ... and upon an implied contract, growing out of the nature of the employer-employee relation.")

"The duties owed by the defendants to the plaintiff spring from the basic principles of equity as revealed in our own decisions which are in accord with the Restatement 2d: Agency. Section 396 states the proposition as follows:

> 'Unless otherwise agreed, after the termination of the agency, the agent: (a) has no duty not to compete with the principal; (b) has a duty to the principal not to use or to disclose to third persons, on his own account or on account of others, in competition with the principal or to his injury, trade secrets, written lists of names, or other similar confidential matters given to him only for the principal's use or acquired by the agent in violation of duty.'"

New England Overall Co., Inc. v. *Woltmann, et. al.*, 343 Mass. 69, 76 (1961).

"The employment relationship by its nature ordinarily justifies an inference that the employee consents to a duty of confidence with respect to any information acquired through the employment that the employee knows or has reason to know is confidential ... The duty to refrain from unauthorized use or disclosure of confidential information continues after termination of the employment relationship." *Restatement of Unfair Competition* § 42, comment c (1995).

12. "It is true ... that one must have notice of both the fact that the information claimed to be a trade secret is in fact secret and the fact that disclosure by the third person is a breach of duty before one is subject to liability for the use or disclosure of the trade secret." *Curtiss-Wright Corporation v. Edel-Brown Tool & Die Co.*, 381 Mass. 1, 5-6 (1980).

13. "In determining whether a covenant will be enforced, in whole or in part, the reasonable needs of the former employer for protection against harmful conduct of the former employee must be weighed against both the reasonableness of the restraint imposed on the former employee and the public interest." *All Stainless, Inc.* v. *Colby*, 364 Mass. 773, 778 (1974).

14. A business-to-business 93A claim may allow for the same sanctions, costs, and attorneys fees if brought against the competing venture only. There is no such claim against the former employee under Chapter 93A. See *e.g., Informix, Inc.* v. *Rennell*, 41 Mass. App. Ct. 161, 163 (1996) ("Employment agreements between an employee and his employer do not constitute either 'trade' or 'commerce.'")

15. Some jurisdictions require that restrictive covenants entered into after the employment relationship begins must be supported by separate consideration. Continued employment alone may not be enough.

16. The non-disclosure provision of the employment agreement at issue in *Oxford Global Resources, Inc.* v. *Consolo*, Massachusetts Superior Court Civil Action No. 02-4763-BLS2 (2002) expressly defined "Confidential Information" as "...any and all information, ...concerning: ... (c) candidates and contractors, including lists, resumes, and related information; (d) the Company's customers and prospective customers, including their identity, special needs, job orders, preferences, transaction histories, contacts, characteristics, agreements and prices ...." *Id.* at n. 3.