

BIBLIOGRAPHY

CLOSING THE BARN DOOR BEFORE THE HORSES LEAVE:

EMPLOYMENT, NON-COMPETITION AND NON-DISCLOSURE AGREEMENTS

CASES:

ABBA Rubber Co. v. Seaquist, 235 Cal. App. 3d 1, 286 Cal. Rptr. 518 (1991)("whether a fact is 'readily ascertainable' is not a part of the definition of a trade secret in California;" accordingly, "information can be a trade secret even though it is readily ascertainable, so long as it has not yet been ascertained by others in the industry"). *Contra*, American Paper & Packaging Products, Inc. v. Kirgan, 183 Cal. App. 3d 1318, 228 Cal. Rptr. 713 (1986)(information is not protectable as a trade secret if it is "known or readily ascertainable").

Acuson Corp. v. Aloka Co., Ltd., 257 Cal. Rptr. 368, 10 U.S.P.Q.2d 1814 (1989), review denied and ordered not officially published (a competitor's use of unethical or improper means to obtain product does not, in and of itself, prohibit reverse engineering since liability under trade secret law is predicated first upon the existence of a trade secret and a trade secret loses protection either when disclosed to the relevant public or when its owner does not make efforts reasonable under the circumstances to maintain its secrecy).

Aero Bolt & Screw Co. v. Iaia, 180 Cal. App. 2d 728, 5 Cal. Rptr. 53 (1960)(in the absence of a written agreement, a former employer was not entitled to the assignment of a patent or a royalty free "shop right" to an invention perfected by an employee solely on his own time and at his own expense).

Application Group, Inc. v. Hunter Group, Inc., 61 Cal. App. 4th 881, 72 Cal. Rptr. 2d 73 (1998)(covenants not to compete cannot be enforced against a California-based employer when it seeks to recruit or hire a nonresident for "employment in California" even if the potential employee is located in a state where such covenants are enforceable).

Armorlite Lens Co. v. Campbell, 340 F. Supp. 272, 173 U.S.P.Q. 470 (S.D. Cal. 1972)(an invention assignment agreement exceeds the scope of protection of the Winston Research case and constitutes an unreasonable restraint of trade when the new ideas are not based upon the employer's secrets but "is valid and enforceable as it relates to ideas and concepts which were based upon secrets or confidential information of the employer and which were conceived during employment or within one year of termination").

Bancroft-Whitney Co. v. Glen, 64 Cal. 2d 327, 49 Cal. Rptr. 825 (1966)(corporate raiding may be actionable in California if there is an unjustifiable interference with an advantageous business relationship).

Bosley Medical Group v. Abramson, 161 Cal. App. 3d 284, 207 Cal. Rptr. 477 (1984)(invalidating an employer's attempt to bring a covenant not to compete within the statutory exceptions of Cal. Bus. & Prof. Code § 16601 by requiring an employee to purchase stock as a condition of employment and reselling the stock when his employment terminated).

Campbell v. Board of Trustees of Leland Stanford Junior University, 817 F.2d 499, 2 U.S.P.Q.2d 1920 (9th Cir. 1987)(a non-competition clause may be valid depending on the factual determination of whether it prohibited the plaintiff psychologist from practicing his entire profession or merely a part of it). *Accord*, Boughton v. Socony Mobil Co., 231 Cal. App. 2d 188, 41 Cal. Rptr. 714 (1964).

Continental Car-Na-Var Corp. v. Moseley, 24 Cal. 2d 104, 148 P.2d 9 (1944)(a "former employee has the right to engage in a competitive business for himself, and to enter into competition with his former employer, even for the business of those who had formerly been the customers of his former employers, provided such competition is fairly and legally conducted").

Cubic Corporation v. Marty, 185 Cal. App. 3d 438, 229 Cal. Rptr. 828 (1986)(Labor Code "section 2870 permits enforcement of employer assignment agreements for inventions which relate to the 'actual' or 'demonstrably anticipated' business of the employer or which resulted from work performed by the employee for the employer").

Diodes, Incorporated v. Franzen, 260 Cal. App. 2d 244, 67 Cal. Rptr. 19 (1968)("no actionable wrong is committed by a competitor who solicits [or hires away] his competitor's employees...so long as the inducement to leave is not accompanied by unlawful action").

Fowler v. Varian Associates, Inc., 196 Cal. App. 3d 34, 241 Cal. Rptr. 539 (1987)(employer had good cause to discharge an employee for refusing to disclose information about an enterprise organized to become a direct competitor).

General Commercial Packaging, Inc. v. TPS Engineering, Inc., 114 F.3d 888 (9th Cir. 1997)(a contractual provision barring one party from courting a specific named customer, as opposed to an entire trade or industry, does not violate California's prohibition against contracts in restraint of trade).

Gibson-Homans Co. v. Wall-Tite Inc., 26 U.S.P.Q.2d 1867 (C.D.Cal. 1992)(former employee's possession of a notebook, which he had purchased for his personal use and in which he recorded his ideas, observations and formulas--including those developed while working for the plaintiff former employer--does not violate the U.T.S.A. in the absence of a showing that the defendants have used the formulas or otherwise impaired their commercial benefit to the plaintiff).

Goodyear Tire & Rubber Co. v. Miller, 22 F.2d 353 (9th Cir. 1927)(continued employment

was sufficient consideration to support an invention assignment agreement requiring the employee to assign inventions made within one year of termination).

Golden State Linen Service, Inc. Vidalin, 69 Cal. App. 3d 1, 137 Cal. Rptr. 807 (1977)(an antisolicitation provision in an employment agreement "appears to be valid and enforceable insofar as it provides that the affected employee will not solicit [the employer's] customers after leaving its employ," but affirming the trial court's factual determination that no such solicitation occurred).

Gordon v. Landau, 49 Cal. 2d 690, 321 P.2d 456 (1958)(an agreement prohibiting a former employee from using "the plaintiff's confidential lists to solicit customers for himself for a period of one year following termination of his employment...is valid and enforceable").

Hilb, Rogal & Hamilton Insurance Services of Orange County, Inc. v. Robb, 33 Cal. App. 4th 1812, 39 Cal. Rptr. 2d 1812 (1995)(announcing a job change to customers of one's former employer and accepting business from those customers does not constitute solicitation).

Howard v. Babcock, 6 Cal. 4th 409, 863 P.2d 150, 25 Cal. Rptr. 2d 80 (1993)(upholding a law firm partnership agreement requiring withdrawing partners to forfeit their share of net profits and other withdrawal benefits if they competed with their former law firm within one year).

Imax Corp. v. Cinema Technologies, Inc., 152 F.3d 1161 (9th Cir. 1998)(a plaintiff seeking relief for misappropriation of trade secrets must identify the trade secrets with reasonable specificity and carry the burden of showing that they exist).

Imi-Tech Corp. v. Gagliani, 691 F. Supp. 214, 6 U.S.P.Q.2d 1241 (S.D. Cal. 1986)(preliminarily enjoining the corporate defendant and the plaintiff's former employees from licensing the patents which the plaintiff claimed equitably belonged to it and from disclosing its trade secrets).

Ingersoll-Rand Co. v. Ciavatta, 110 N.J. 609, 543 A.2d 879, 8 U.S.P.Q.2d 1537 (N.J. 1988)(extensive analysis of invention holdover agreements applying a rule of reasonableness test).

John F. Matull & Associates, Inc. v. Cloutier, 194 Cal. App. 3d 1049, 1054, 240 Cal. Rptr. 211, 214 (1987)("the terms of Business and Professions Code section 16600 do not invalidate an 'employee's agreement not to disclose his former employer's confidential customer lists or other trade secrets or not to solicit those customers").

Kolani v. Gluska, 64 Cal. App. 4th 402, 75 Cal. Rptr. 2d 257 (1998)(a broad covenant not to compete cannot be saved from illegality by narrowed construction or rewritten into a narrow bar on theft of confidential information).

Liberty Mutual Insurance Co. v. Arthur J. Gallagher & Co., 1994 U.S. Dist. LEXIS 18412 (N.D. Cal. 1994)(anti-solicitation clauses are far less draconian than the absolute bar of covenants not to compete and will be enforced when the subsequent competition constitutes unfair competition, such as the unauthorized use of trade secrets or confidential information).

Litton Systems, Inc. v. Sundstand Corporation, 224 U.S.P.Q. 252, 257 (Fed. Cir. 1984) (court may draw adverse inferences from a company's failure to list its claimed trade secrets in response to the defendant's discovery demands).

Lojek v. Thomas, 716 F.2d 675 (9th Cir. 1983)(anti-competition clauses permitting forfeiture of profit-sharing and retirement benefits are valid under ERISA and preempt state anti-competition laws). *Accord*, Clark v. Loren Young Tire Center Profit Sharing, 816 F.2d 480 (9th Cir. 1987).

Loral Corporation v. Moyes, 174 Cal. App. 3d 268, 219 Cal. Rptr. 836 (1985)(noninterference provisions in an executive officer's termination agreement restricting him from "raiding" employees is more like a nondisclosure or nonsolicitation agreement which may be valid, rather than a noncompetition agreement which is invalid under California law).

MAI Systems Corporation v. Peak Computer, Inc., 991 F.2d 511 (9th Cir. 1993), cert. dismissed, 114 S. Ct. 671 (1994)(computer manufacturer's customer database, which allows plaintiff to tailor its service contracts and pricing to customers' unique needs, and field information bulletins constituted trade secrets under the California U.T.S.A.).

Metro Traffic Control, Inc. v. Shadow Traffic Network, 22 Cal. App. 4th 853, 27 Cal. Rptr. 573, 30 U.S.P.Q.2d 1684 (1994)(absent a showing of unlawful purpose or means, the hiring of an at-will employee by a competitor does not constitute misappropriation of a trade secret).

Monogram Industries, Inc. v. Sar Industries, Inc., 64 Cal. App. 3d 692, 134 Cal. Rptr. 714 (1976)(upholding under Business & Professions Code § 16601 a nationwide covenant not to compete in a similar business for a five-year period).

Morlife, Inc. v. Perry, 56 Cal. App. 4th 1514, 66 Cal. Rptr. 2d 731 (1997)(specialty roofing contractor's customer list constituted a "trade secret;" injunctive relief prohibiting the new company permanently from doing any business with the 32 customers who had been unlawfully solicited and damages for unjust enrichment were appropriate remedies).

Moss, Adams & Co. v. Shilling, 179 Cal. App. 3d 124, 224 Cal. Rptr. 456 (1986)(former employees did not engage in unfair competition when they used a company rolodex to obtain the addresses of clients to whom they mailed professional announcements since the clients' names and addresses did not constitute trade secrets: "Antisolicitation

covenants are void as unlawful business restraints except where their enforcement is necessary to protect trade secrets").

People v. Eubanks, 14 Cal. 4th 580, 59 Cal. Rptr. 2d 200 (1996)(the prosecutor's acceptance of a \$13,000 contribution from the crime victim, Borland International, to the costs of the district attorney's investigation created a disabling conflict of interest justifying the recusal of the Santa Cruz District Attorney's office from acting further in the case).

People v. Gopal, 173 Cal. App. 3d 524, 217 Cal. Rptr. 487 (1985) (in addition to the specific provisions of Cal. Penal Code § 499c proscribing the theft of trade secrets, the general provisions of Cal. Penal Code § 496 ("receiving stolen property") encompasses the receipt and possession of trade secrets obtained by theft and gives rise to an independent basis of criminal liability).

PepsiCo Inc. v. Redmond, 54 F.3d 1262, 35 U.S.P.Q.2d 1010 (7th Cir. 1995)(plaintiff may prove misappropriation by demonstrating that new employment will lead to the "inevitable" disclosure of its strategic marketing plans and other trade secrets).

Scott v. Snelling & Snelling, Inc., 732 F. Supp. 1034 (N.D. Cal. 1990)(strong California public policy precludes enforcement of franchise agreement covenants imposing geographical and temporal limitations on former franchisees' right to compete).

Vacco Industries, Inc. v. Van Den Berg, 5 Cal. App. 4th 34, 6 Cal. Rptr. 2d 602 (1992)(the non-competition agreement which a corporate officer, who owned 3% of employer's stock, executed when he sold all of his shares of stock in the corporation and which prohibited him from carrying on any competitive business for a period of five years was valid and enforceable for it fell within the statutory exception of Cal. Bus. & Prof. Code § 16601).

Vermont Microsystems, Inc. v. Autodesk, Inc., 1994 U.S. Dist. LEXIS 18737 (D. Vt. 1994)(applying the California version of the Uniform Trade Secrets Act, the court assessed damages of \$25.5 million against a former employee and his new employer for wrongfully misappropriating the plaintiff's software trade secrets), aff'd in part & rev'd in part, 88 F.3d 142 (2d Cir.1996)(affirming the lower court's findings of liability but remanding the case for a reconsideration of the damages calculation).

Winston Research Corp. v. Minnesota Mining & Manufacturing Co., 350 F.2d 134, 146 U.S.P.Q. 422 (9th Cir. 1965)(interpreting a holdover provision in an invention assignment agreement, the Ninth Circuit affirmed the trial court's order enjoining the defendants from using trade secrets for two years and ordering the assignment of three patent applications involving inventions "conceived" during the inventor's former employment).

STATUTES:

Cal. Bus. & Prof. Code § 16600 ("every contract by which anyone is restrained from

engaging in a lawful profession, trade, or business of any kind is to that extent void").

Cal. Bus. & Prof. Code § 16601 (an agreement not to compete is valid when it is obtained in connection with the sale or transfer of a business or the sale or other disposition of all the covenantor's shares in the corporation).

Cal. Civ. Code §§ 3426-3426.11 (Uniform Trade Secrets Act).

Cal. Civ. Code § 3426(a) ("Actual or threatened misappropriation [of a trade secret] may be enjoined.")

Cal. Civ. Proc. Code § 2019(d) (civil discovery provision requiring a party alleging the misappropriation of a trade secret to "identify the trade secret with reasonable particularity" before the commencement of discovery).

Cal. Evid. Code §§ 1060-01 (the trade secret privilege).

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Cal. Lab. Code § 2870 (imposing statutory restrictions on the "shop right" doctrine and contractual assignments of inventions).

Cal. Penal Code § 496 ("receiving stolen property"), examined in *People v. Gopal*, *supra*.

Cal. Penal Code § 499c (the principal California statute imposing criminal liability for trade secrets misappropriation).

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