Overview

Covering how to protect trade secrets and minimizing the risk of future competition by current employees.

Trade Secrets

• Trade secrets are “information, including but not limited to a formula, pattern, compilation, program, device, method, technique, or process that both:
  a. Derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by a person able to obtain economic value from its disclosure or use.
  b. Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.
Preventing the Misappropriation of Trade Secrets

Trade Secrets

• Broad interpretation of definition
  o “Trade secrets can range from customer information, to financial information, to information about manufacturing processes to the composition of products. There is virtually no category of information that cannot, as long as the information is protected from disclosure to the public, constitute a trade secret.
  o We believe that a broad range of business data and facts which, if kept secret, provide the holder with an economic advantage over competitors or others, qualify as trade secrets.”

Economy Roofing & Insulating Co. v. Zumaris, 538 N.W.2d 641 (Iowa 1995)

Trade Secrets

• More practically, trade secrets can be:
  o Contract terms: Sysco Iowa, Inc. v. University of Iowa, 889 N.W.2d 235 (Iowa Ct. App. 2016). “Information asymmetry” was the court's key concern. Portions of Sysco’s public contract with the University of Iowa related to its margins, definition of “cost,” and discounts, were not subject to the open records law because it would give Sysco’s competitors knowledge of Sysco that Sysco would not have of them in future rounds of sealed bidding.
  o Customer lists and pricing information: Pocahontas Aerial Spray Services, L.L.C. v. Gallagher, 2015 WL 576161 (Iowa Ct. App. 2015). Pilot spray logs, primary customer list, and pricing history were trade secrets. Lists of prospective customers and the needs and requirements of customers may also be proprietary.
Trade Secrets

- Trade secrets can be:
  - The recipe for pizza sauce and crust: *205 Corp. v. Brandow*, 517 N.W.2d 548 (Iowa 1994). Similarly, ingredient mixtures, manufacturing processes, production processes and methodologies may be trade secrets.
  - Marketing and sales information.
  - Supplier and source information.
  - Financial information.
  - Other information unique to a particular business that is not generally known to the public.

Misappropriation

- Acquisition through “improper means.”
  
  Acquisition alone is enough to constitute misappropriation, even if the acquiring party does not disclose or use the trade secret.
  
  - “Improper means” is defined as: “theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage, including but not limited to espionage through an electronic device.”

Misappropriation

- Use or disclosure of the trade secret under one of several possible circumstances:
  - The trade secret is disclosed or used by the person using improper means to acquire it.
  - The person making the disclosure or use “knows that the trade secret is derived from or through a person who had utilized improper means to acquire the trade secret.” OR
  - The person making the disclosure or use “knows that the trade secret is acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use.” OR (cntd....)
Misappropriation

• Use or disclosure of the trade secret under one of several possible circumstances (cntd.)
  o The person making the disclosure or use “knows that the trade secret is derived from or through a person who owes a duty to maintain the trade secret’s secrecy or limit its use.” OR
  o The person making the disclosure or use “before a material change in the person’s position, knows that the information is a trade secret and that the trade secret has been acquired by accident or mistake.”

Common Law Elements of Misappropriation

• In Iowa, in addition to the statute protecting trade secrets, there is a common law claim for misappropriation of a trade secret. The elements are:
  1. The existence of a trade secret;
  2. Acquisition of the secret as a result of a confidential relationship; and
  3. Unauthorized use of the secret.

Common Law Misappropriation

• Employees may acquire trade secrets because the employer voluntarily provides access to them. However, the use of secrets may and should be restricted to the scope of the employee’s authorized work.
Contractual Terms and other Precautionary Measures

• Contractual terms and other precautionary measures can protect trade secrets quite well:
  
  
  o Mr. Torres Flores signed a confidentiality agreement with MUSCO, which stated in part:
    
    The employee hereby acknowledges that he has learned and/or has been given access to Proprietary Information, as defined ... below, vital to the success of the Company. The employee agrees not to use this Proprietary Information at any time except in the interest of the Company. The employee shall not disclose this information to anyone outside the Company without first obtaining written approval from an officer of the Company.

MUSCO v. Torres Flores

• In this case the defendant, Mr. Torres Flores, was MUSCO’s principal salesperson for Puerto Rico and the Caribbean.
• On August 25, 2015, he resigned, saying he was going back to work for his dad’s construction company. Torres Flores didn’t return his MUSCO-provided laptop.
• It turns out, he really went to work for Qualite, a competitor in Michigan. MUSCO was able to trace the laptop when it accessed the Internet, and MUSCO determined that it was accessing the Internet in Hillsdale, Michigan, where Qualite is headquartered.
• MUSCO also determined that Torres Flores used his access to MUSCO’s password-protected, restricted-access, project database to search for all potential and existing MUSCO projects in Puerto Rico and Latin America.
• MUSCO moved for a temporary restraining order on October 22, 2015, and had a one-year restraining order barring Torres Flores from working for Qualite and Qualite from using any information it learned from Torres Flores to prevent trade secret misappropriation.
• MUSCO’s employment agreement was important:
  
  o The court found that having Mr. Torres Flores sign the confidentiality agreement was a “reasonable step[] to maintain the information’s secrecy.”
  
  o MUSCO also showed that Torres Flores acquired the information “under circumstances giving rise to a duty to maintain its secrecy or limit its use” because Torres Flores’s duty “ar[ose] from his signing the Agreement.”
Compare MUSCO to the similarly recent case of Pocahontas Aerial Spray Services, L.L.C. v. Gallagher.

In this case, a small business providing crop dusting services to farmers had an office manager (Gallagher) who became “operations manager,” managing “pilot spray logs, aerial maps, and pricing information,” “controlled the company laptop,” and “helped develop the client relationships and customer base.”

She quit in September of 2012 and in November of 2012, filed paperwork with the Iowa Secretary of State for the formation of her own company “Blue Sky Spray Service LLC” to compete with her former employer.

The good news: her former employer was able to get an injunction and prevail at trial. If you don’t have written confidentiality agreements with your employees, all hope is not lost.

However, your life could be harder and more expensive. Though the counterfactual cannot be tested, it is possible that the employer could have prevailed on summary judgment and avoided the cost of trial with a well-drafted, enforceable, confidentiality agreement.

Witness credibility and unique factual circumstances are often of the utmost importance in these types of cases:

The former employee argued that she was just an hourly, at-will, employee, without a confidentiality agreement, so her former employer did not take steps reasonably necessary to protect the information.

Fortunately for her former employer, she undercut the force of this argument by identifying herself as a “manager” in the business plan for her new business.

The trial court also found that she was evasive and not a credible witness and did not believe her testimony that she did not have any of the alleged trade secret information in her possession.
Pocahontas Aerial Spray Services, L.L.C.

- In this case, the lack of a confidentiality agreement opens space to question whether the employer took sufficient measures, “reasonable under the circumstances,” to keep the information confidential.
- It also creates a question of whether the information taken was “general knowledge acquired during their employment.”
- Such questions are “fact questions” which are for a jury (or the court if tried as a bench trial). Such questions are subjective and inherently create more risk for an adverse outcome.

Nondisclosure agreements

- Even if employer information is not a “trade secret,” employer information may be protected with a nondisclosure agreement that extends to information that is not public, and prohibits an employee from disclosing the information outside of the job duties or employment term.

COVENANTS NOT TO COMPETE
Covenants Not to Compete

• An agreement or contract between an employer and employee that restricts the employee from competing with the employer. Generally, such a covenant will contain restrictions, such as:
  o A definition of what constitutes competition, such as working for an employer in the same business or industry, opening one’s own business in the same industry, performing certain work for or with the employer’s customers or prospective customers, owning a part of a competing business, or other similar actions;
  o A time period during which competition is restricted or prohibited; and
  o A geographic area in which competition is restricted or prohibited.
• An employer need not give any specific consideration in exchange for a noncompete agreement. Hiring is sufficient, as is continuing employment indefinitely or giving a raise or other favorable change in employment.

Enforcement

• Courts consider these three factors in determining whether or not to enforce a covenant not to compete between employers and employees:
  1. Is the restriction reasonably necessary for the protection of the employer’s business;
  2. Is it unreasonably restrictive of the employee’s rights; and
  3. Is it prejudicial to the public interest?

• Additionally a court may consider these factors:
  o The nature of the employer’s business.
  o The nature of the former employee’s occupation.
  o The amount of access the former employee had to proprietary or trade secret information.
  o Special employee training.
  o Whether it was the employer or employee who terminated the relationship.
  o The value of the consideration supporting the agreement.
  o Other basic fairness considerations.
Enforcement

- Employer interests that have been enforced:
  - Customer goodwill
  - Special employee training
  - Trade secrets
  - Customer contact or other confidential business information

Termination of Employment

- Noncompete agreements may be enforced if an employer terminates the employee, particularly if the agreement has a provision for enforcement.
- However, if a termination violates the employment contract, the noncompete agreement may be unenforceable.

Enforcement v. Revision

- Iowa courts have two options concerning enforcement of non-compete agreements:
  - Enforce the agreement as written, or find that it is unreasonable and refuse to enforce.
  - Upon request of a party, a court may revise or modify the provisions of an agreement. Courts are not required to revise an agreement on their own accord and are “naturally reluctant to remake contracts.”
Employer Remedies for Breach

1. **Injunctive Relief**: temporary or permanent. Such relief should be included in the non-compete agreement itself, or proof of irreparable harm will be required.

2. **Specific damages**: for proof of both a violation of the agreement and the dollar amount of loss or lost profit.

Non-Solicitation Agreements

- Like a noncompete agreement, a nonsolicitation agreement will prevent competition.
- Prevent contacting, encouraging or soliciting employees, customers, or prospective customers from leaving the original employer and going to work for, or doing business with, the former employee or his or her new employer or business.
Enforcement

• Most considerations are the same as for noncompete agreements.

Thank You

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