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BUSINESS LAW NEWSLETTER

INTELLECTUAL PROPERTY AUDITS AND PROTECTION OF TRADE SECRETS

By Scott J. Spooner, Esq.

Intangible assets, such as trade secrets, continue to comprise a greater percentage of overall business assets as the nation shifts away from a manufacturing-based economy towards a skills-focused economy. This fundamental economic shift requires a business to think differently about how it protects and maximizes the commercial value of its intangible assets. Because the core value of intangible assets can be lost if a business fails to take preventative measures to safeguard those assets, many businesses conduct intellectual property audits in advance of an actual dispute to ensure that the business is taking the proper steps to protect its intangible assets.

Virtually all businesses own trade secrets, even if they do not realize it. A trade secret may include formulas, programs, devices, methods, techniques, processes, customer lists, business leads, financial information, marketing strategies, sales techniques, and methods of conducting business. The broad scope of trade secrets means that any business will possess some proprietary trade secrets that it would not want disclosed to competitors or the general public. Protection of trade secrets, however, hinges on a number of conditions that require vigilance. If a business fails to take the necessary steps to safeguard its trade secrets, it will be precluded from claiming protection for such trade secrets.

A business could lose trade secret protection if it fails to maintain the secrecy of the information for which protection is sought. For example, if a business fails to take appropriate security measures, including locking file cabinets and implementing computer network protection measures, to protect the secrecy of the proprietary information, the business may be denied trade secret protection if a dispute arises. A business similarly risks forfeiture of trade secret protection if it fails to require its key employees to enter into confidentiality and non-disclosure agreements. In short, if a business fails to take preventative measures to protect its trade secrets, a key employee could misappropriate the trade secrets, disclose the trade secrets to a competitor for financial gain, and impair the competitive position of the business without being subject to liability for misappropriation of trade secrets.

The prospect of losing their proprietary trade secrets as a result of inaction or omission has convinced many businesses to implement intellectual property (IP) audits. An IP audit in the trade secrets area may involve the following steps (depending upon the nature of the business):

- a comprehensive identification of all potential trade secrets that a business could claim, with a categorization of the trade secrets by importance to the business;
- a systematic evaluation of the security measures adopted by the business to safeguard its trade secrets and proprietary information;
- a thorough review of all employment, confidentiality, and non-disclosure agreements to determine if the business has implemented appropriate information protection measures;

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NON-COMPETITION AGREEMENTS

By James V. Irving, Esq.

It is difficult to overstate the degree of scrutiny Virginia judges provide to non-competition and non-solicitation agreements. Because they are anti-competitive, they run contrary to public policy and consequently, courts consistently refuse to enforce them at all if they find them to be overbroad in any manner.

In the case of *MicroStrategy v. Business Objects S. A.*, a federal judge in the Eastern District of Virginia sitting in Norfolk enforced all but one of the provisions in MicroStrategy's employment agreement, including a clause prohibiting the dissemination of the company's confidential information. The Court refused to enforce a non-solicitation clause designed to prevent an employee from stealing MicroStrategy's customers.

MicroStrategy's contract of employment included language by which the employee agreed he would not either directly or indirectly "seek to influence" a company's customers "to terminate or modify their relationship with the company." The prohibition was to last for one year from termination of the employment relationship.

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CONSPIRACY AND TORTIOUS INTERFERENCE WITH A BUSINESS CONTRACT

By James V. Irving, Esq.

As we have pointed out on numerous occasions in this newsletter, the proponent of a claim for tortious interference with a business expectancy must prove that the defendant intentionally and improperly interfered with an on-going business relationship, thereby causing the prospective customer to eschew an otherwise valid business expectancy. In *Commercial Roofing & Sheet Metal Company v. Gardner Engineering*, Fairfax County's newest Circuit Court Judge, Randy I. Bellows, recently handed down a ruling clarifying the elements of the plaintiff's proof.

As a result of apparent bad blood between Gardner Engineering and Commercial Roofing, Gardner allegedly excluded the plaintiff from a list of contractors that would be permitted to bid on a waterproofing project at Skyline House Condominium Association. Commercial Roofing sued Gardner and an individual employed by Gardner, alleging in part that by excluding Commercial Roofing from the list of bidders, Gardner and its employee had conspired to interfere with Commercial's reasonable business expectations.

Gardner responded by pointing out two defects to this allegation. First, that a claim for interference with a business expectancy (as opposed to an existing business contract) must allege improper means; and second, that in order for plaintiff to prevail, he must have a reasonable expectation that the contract would have been obtained. Judge Bellows found that the plaintiff had failed on both prongs.

Although the plaintiff argued that Gardner had engaged in "acts of sharp dealing, overreaching, and/or unfair competition," and "acted in combination to disparage and have [plaintiff] improperly excluded" from the bidding process, Judge Bellows found that these allegations failed to rise to the level of "improper methods." Improper methods, the judge noted, may include "violence, threats, intimidation, bribery, unfounded litigation, fraud, misrepresentation, or deceit."

The judge held that the plaintiff had not plead the necessary facts, nor argued law tending to show that it is "improper for an engineering firm, hired by a client to compile a list of contractors" to exclude a particular contractor from that list, or even to "condition acceptance of a bid on a contractor's agreement not to use certain subcontractors". Even, apparently, if ill will comprises the motivation. Hardball appears to be acceptable, provided no affirmative wrongful acts are associated with the process.

In sustaining the demurrer to the business conspiracy count, the Court also reaffirmed the familiar holding that an individual cannot conspire with himself. The individual defendant demurred to the claim of statutory conspiracy under Code of Virginia §18.2-499 by arguing that he was at all times an employee of Gardner, and that an individual defendant and the corporation for which he works are, for the purpose of this tort, one and the same.

The Court agreed, ruling that in the absence of an allegation that the individual had acted outside the scope of his employment, the claim cannot proceed.

The *Commercial Roofing* ruling was handed down on November 20, 2002. While it breaks no new ground, it reaffirms Virginia's strict standard of proof for these powerful business torts. ◈

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The case arose when MicroStrategy sued its former employee's new employer alleging that the employee had been recruited, at least in part, to steal MicroStrategy's business. The federal court refused to enforce the clause, ruling that the terms "seek to influence" and "modify" were ambiguous and failed to provide the employee with sufficient guidelines to allow him to understand when his actions might violate the clause.

No word or phrase in a non-competition/non-solicitation agreement should be used without a thorough analysis of its import. Often an employer includes language designed to broaden coverage to extend to hypothetical or even probable circumstances that may arise in the future. However, language that attempts to address such speculative future clients often results in overbroad or unnecessarily ambiguous language. Phrases like "seek to influence" and "modify" may seem objective in the abstract and may conform to the language many employers want to include in their agreements. However, *MicroStrategy* again reminds us that all such covenants must be narrowly construed to protect the employer's vital interest only, and be written in a way to exclude the possibility of other interpretation. ◈

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- a review of relevant trade literature to determine whether any claimed trade secrets have fallen into the public domain;
- an evaluation of marketing and promotional materials, including web sites, to ensure that the business has not disclosed inadvertently any sensitive or proprietary information; and
- preparation of an audit report analyzing the adequacy of the client's current trade secrets protection mechanisms and laying out recommendations for enhancing the likelihood that sensitive and proprietary information would be entitled to trade secrets protection.

Today's highly competitive business environment requires businesses to think preventatively about the protection of their valuable intangible assets. Bean, Kinney & Korman can assist you in maximizing the value of your intangible assets. ◈

MEET OUR LAWYERS …

Jonathan C. Kinney

The firm that became Bean, Kinney & Korman, P.C. was founded by David B. Kinney in 1960. Jonathan C. Kinney joined Bean, Kinney and Korman, P.C in 1975. Although the firm has undergone numerous changes since its inception, the Kinney name remains a constant. A principal of the firm, Mr. Kinney specializes in commercial real estate transactions with particular emphasis on land use and zoning, corporate and partnership matters, and estate planning.

Mr. Kinney is actively involved in Northern Virginia real estate matters as zoning counsel to a number of private developers and financial institutions. He works extensively with private individuals on estate planning and corporate matters and currently serves as president of The Clarendon Alliance, which is a public-private partnership of business, civic, and governmental leaders. He also serves as a trustee of the Arlington Community Foundation and is a past chairman of the Arlington Community Services Board and the Arlington Housing Commission.

A graduate of Duke University and the University of Chicago Law School, Mr. Kinney is the recipient of the Reginald (Reggie) H. Smith Post Graduate Fellowship.

Jonathan Kinney is married to Barbara A. Kinney and has two children, a twenty-year-old son, David at Tulane University and a sixteen-year-old daughter, Rachel. They reside in Arlington, Virginia. ◈

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About Our Organization . . .

For over four decades, Bean, Kinney & Korman has been a leading Northern Virginia law firm that has continuously grown and diversified to meet the needs of its expanding community of clients and their increasingly complex legal needs. While we have grown in size and greatly expanded the depth and breadth of our capabilities, we have remained committed to those fundamental elements of value that are integral to our practice philosophy: experience, versatility, dedication to service, flexibility and efficiency.

Our responsive and exceptional quality service, coupled with our sensitivity to client needs, has established a professional reputation in which we take great pride. We are dedicated to achieving exceptional results for our clients in every matter we are entrusted to handle, mindful of each client's resources and unique circumstances. Delivering greater value to our clients day in and day out is how we will continue our reputation as one of the most highly regarded law firms in the Washington metropolitan region.

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