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PROACTIVE STEPS TO PROTECT TRADE SECRETS

BY JAMES V. IRVING, ESQUIRE

The Virginia Trade Secrets Act protects the critical business secrets of a person or individual provided three pre-conditions are met:

1) the information to be protected must fit the definition of a trade secret;
2) the owner of the trade secret must have taken reasonable steps to maintain it securely; and
3) the outsider making use of it must know or have reason to know that the trade secret was obtained by improper means.

Daniel Glenn was an employee of BMX Technologies, Inc. working on BMX's Lockheed Martin/Bechtel contract. BMX reacted quickly when Glenn left BMX and took a USB containing trade secret material with him. Concerned that Glenn would use this material to compete for the Lockheed work on behalf of a competitor, BMX obtained an injunction from the Lynchburg Circuit Court prohibiting the former employee from "using, disclosing, divulging or otherwise disseminating in any way, directly or indirectly, any trade secret or proprietary or confidential information of plaintiffs obtained during or after his employment."

A trade secret is defined under Virginia law as information that "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." Even if the material at issue is a trade secret, it cannot be protected under the act unless the owner undertakes "efforts that are reasonable under the circumstances to maintain its secrecy."

The court found that the materials taken constituted trade secrets and that they had been adequately protected by BMX. Since Glenn took the USB without permission, the court was persuaded that if Glenn made any use of the trade secret material, he would be doing so through "improper means." The court also found that only an injunction could prevent the likelihood of irreparable harm. Once the trade secret material was used or disclosed to a third party, stopping the damage would be like putting the toothpaste back in the tube.

Having fulfilled the prerequisites for relief, the court entered a broad and onerous injunction against possible conduct by Glenn that could damage BMX. In particular, the court's order required Glenn to:

- preserve all electronic files and mail attachments relevant to the dispute;
- immediately return any physical property removed from BMX;
- immediately disclose all persons given access to any of the trade secret material;
- subject to a reasonable protective order, permit BMX to inspect any electronic device

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which he used or had access to during the prior eleven months for the purpose of inspection;

• provide BMX a monthly certification from Lockheed Martin/Bechtel that he has not, directly or on behalf of a third party, used, disclosed or possessed any BMX trade secret; and

• provide a copy of the court's order to any entity that he provides services to as an employee, consultant, independent contractor or in any other capacity.

It is sometimes said that the fight over the preliminary injunction defines the ultimate winner of the case. Because they so effectively tied Glenn's use of information he may have wrongfully taken from his former employer, BMX may have won this war in the first battle.

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FINDING A SAFE PATH TO FOLLOWING THE FCC'S NEWEST CONSUMER PRIVACY DIRECTIVES

BY MATTHEW P. THIELEMANN, ESQUIRE

The Telephone Consumer Protection Act ("TCPA") was passed in hopes of restricting marketing efforts to individuals via mass or automated communication-based systems (i.e., telemarketing). The new provisions are aimed at modernizing the TCPA and recent enforcement opinions by the Federal Communications Commission ("FCC") and courts alike should strongly incentive all businesses to rethink their risk exposure and practices concerning consumer marketing.

Originally, the TCPA was crafted to address telephone calls made to individuals on the "do not call list" through what the FCC identified as an "automated telephone dialing system" ("ATDS"). ATDSs were defined by the FCC as equipment possessing the capability to "store or produce telephone numbers to be called, using a random sequential number generator and . . . to dial such numbers." Through the years the FCC expanded this definition to include text messaging (as opposed to simply telephone calls) and, within the past year, again expanded the definition of an ATDS to include "any equipment that has the specified capacity to generate numbers and dial them without human intervention regardless of whether the numbers called are randomly or sequentially generated or come from calling lists." The deletion of the word "telephone" and inclusion of calling lists without a requirement for actual dialing increases the coverage of the TCPA to essentially any device through which an individual may be contacted through any numerical identifier. With such open-ended interpretations, consumers receive far greater assurance for privacy on a multitude of devices while corporate-level compliance obviously becomes increasingly problematic.

By statute, violations of the TCPA allow any aggrieved "person or entity" to seek penalties of $500 per unlawful contact and up to $1500 per willful violation. Some courts have recently awarded as much as $459 million in damages for such violations in a class action context—meaning the limited "per call" figures should not be taken lightly. Moreover, the FCC has recently noted how indirect liability may result from outsourcing telemarketing activities, stating that "even when a seller does not 'initiate' a call . . . . it may be held vicariously liable for certain third party telemarketing calls . . . . under federal common law principles of agency . . . ." The FCC explicitly noted that these principles extended "not only [to] formal agency, but also principles of apparent authority and ratification." Thus, liability may extend directly to an entity violating the TCPA and also to entities possessing active knowledge of a third party committing violations on their behalf.

The best course of action for businesses wishing to avoid liability remains the pursuit of a customized plan based upon a thorough review of their current practices, marketing desires, budget and other internal capabilities (personnel, facilities and the like). These factors often limit the range of possible solutions for legal compliance with respect to any issue.

After this analysis has been completed, companies should focus on complying with the newest provisions of the TCPA, which primarily target consumer consent. Consent must now be "clear and conspicuous" and must provide three pieces of information:

1. an assent to receive auto-generated advertisements;
2. a statement that receipt of such advertisements is not a pre-condition of a purchase; and
3. a specific number to which the advertisements may be transmitted.

Previously, the FCC allowed an exemption to the TCPA's consent requirement where an entity maintained an "established business relationship" with the consumer. Beginning on October 16, 2013, however, this will no longer be the case. Even pre-existing clients must provide written consent before automated marketing materials may be transmitted to them. Obtaining this consent should be your company's next priority. Another departure from the original TCPA actually eases this process by allowing for written consent to be obtained electronically through any means authorized by the E-SIGN Act, though exceptions do apply (debt collections, academic settings and health care related calls, for example). Lastly, any other means for mitigating liability fitting well within your company's needs should be implemented. One example is the outsourcing of your company's "call list" auditing to a third party provider. With this approach, should your company's consumers not elect to receive marketing communications, a third party organization would assume the responsibility for deleting their contact information from your contact list. The added layer of liability insulation, increased contact list accuracy and decreased stress of internalizing this process all strongly support the decision to utilize third party auditors.

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A TACTICAL APPROACH TO DEFENDING VIRGINIA NON-COMPETES

BY JAMES V. IRVING, ESQUIRE

Virginia civil procedure provides a defendant with two principal avenues to challenge the sufficiency of a plaintiff's claim. The first, a demurrer, contends that even if all well-pled facts are true, the complaint is inadequate. The court will not look beyond the four corners of the complaint in judging a demurrer. In contrast to the first challenge, a plea in bar provides a defendant with the opportunity to offer evidence to defeat the plaintiff's claim by proving or disproving a distinct factual element critical to the claim.

After the Virginia Supreme Court's decision in *Home Paramount Pest Control Companies, Inc. v. Shaffer* changed the non-competition landscape in 2011, Virginia courts saw a surge in litigation as employees and former employees attacked the enforceability of non-competition agreements that were acceptable under the old law but might not pass under the *Home Paramount* standard. The defendant's demurrer in *Government Strategy & Technology LLC v. O'Donnell* was initially heard in the Loudoun County Circuit Court on the day the Home Paramount decision was handed down. Judge Thomas Horne, unaware of the Supreme Court's decision in *Home Paramount*, denied defendant Veronica O'Donnell's demurrer. She immediately asked the court to reconsider its ruling in light of the new holding.

In *Home Paramount*, the Supreme Court reviewed a Fairfax County Circuit Court's ruling that a non-competition agreement was overbroad and therefore unenforceable because it could be interpreted as prohibiting the former employee from engaging in conduct that didn't actually compete with Home Paramount. The significance of the decision is that the Supreme Court had found the exact same provision to be enforceable in 1989.

In *Home Paramount,* the court said that since the restriction "did not confine the function element of the [noncompetition clause] to those activities it actually engaged in, [Home Paramount] bore the burden of proving a legitimate business interest in prohibiting [the employee] from engaging in [the allegedly competitive activities]." The Supreme Court held that Home Paramount had failed to meet this burden; therefore, the non-compete could not be enforced.

On reconsideration in *Government Strategy,* Judge Horne noted a critical procedural distinction between *Home Paramount* and the case before him. In the trial court, the challenge to the *Home Paramount* non-competition clause came by way of a plea in bar, a process that provided Home Paramount the opportunity to put on evidence that the breadth of the function element was necessary to protect a legitimate business interest. Since O'Donnell's non-compete was challenged on demurrer, the employer did not have the chance to demonstrate the reasonableness of the non-compete's breadth.

Though the *Government Strategy* non-compete seemed to run afoul of the new *Home Paramount* paradigm, Judge Horne was not willing to find the clause unenforceable without giving

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Government Strategy a chance to justify the breadth of the provision. He denied O'Donnell's motion for reconsideration, noting that the "arguments are premature and would be more appropriately argued in some other context."

In *Government Strategy & Technology LLC v. O'Donnell,* we see a thoughtful jurist attempting to sort out the effect of a sudden and dramatic change in the law. It is tempting to envision Judge Horne resorting to a procedural artifice to buy time for the impact of *Home Paramount* to be distilled, but it's really the case of a judge struggling to get it right in real time. The case provides a telling peek at an important procedural nicety and an insight to a judge at work.

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