



Seattle Intellectual Property Inn of Court

Soap Opera - A Trade Secret Melodrama

November 17th, 2011

University of Washington Faculty Club, Seattle
1.0 General CLE Credit Approved

The session features a presentation on trade secret law. It will include a brief introduction of trade secret law followed by three vignettes, which will demonstrate issues pertaining to trade secret law. Vignettes will be followed by an interactive session where audience will be invited to comment and/or present questions.

Presenter

Dario Machleidt; Frommer Lawrence &
Haug, LLP

Moderator

Jay Gairson; Gairson Law, LLC

Introduction

Katherine Hendricks; Hendricks & Lewis, PLLC

First vignette

A conversation between the CEO and the in-house counsel of PG, the company with an employee having knowledge of valuable trade secrets, leaving and joining Dupre, the competitor company. The conversation will center on company's options in protecting its trade secrets and various avenues it can pursue against the employee and the competitor company he joined.

CEO: Isabella Fu; Microsoft Corporation

In-house counsel: Ranjit Narayan; Orick Herrington & Sutcliffe, LLP

Second vignette

A conversation between the senior partner and the associate of an outside counsel hired by PG. The conversation will center on procedural issues and litigation strategy.

Outside counsel senior partner: David Binney; K & L Gates, LLP

Associate: Jenny Ling; Seattle University School of Law

Third vignette

A conversation between the in-house attorney of Dupre, the competitor company, and the new employee. The conversation will center on a preemptive approach to avoid the lawsuit.

In-house counsel: Gary Myles; Schwabe Williamson & Wyatt

New employee: David Lieberworth; Garvey Schubert Barer Law

IP INNS OF COURT TRADE SECRET SCENARIO

Jackson Edward Randolph Quibble (“Jerq” for short) works for Prospero & Gremling (“PG”) as a regional sales manager for the western region, which covers the U.S. west of the Mississippi. PG is a consumer products company based in Ohio with a wide range of products, with a concentration in the cleansing sector (“Our soaps are super!!”). Jerq took the courses for a masters degree in organic chemistry some years ago, but didn’t stick around for the thesis part. Still, he knows the basics, especially as they apply to PG’s products. And he’s good at his job, which entails his running the sales force, interfacing with product development and, on occasion, visiting customers in the field or attending trade organization meetings where customers also appear. He doesn’t sell, more helps others to sell. And he doesn’t develop products, but instead provides input to the chemists and engineers who do. In the latter role, he regularly attends meetings where products are discussed and ideas bandied about. He also has access to the R&D department’s computer records.

PG in fact has a dynamite new product, VIM, an additive to laundry detergent that reinforces the fibers in clothing and makes the clothing last longer. The additive itself consists of a rather simple polymeric compound that embeds itself into the fabric and knits the strands together, increasing their connectivity without stiffening the fabric or otherwise bringing itself to the consumer’s attention. The additive is relatively inexpensive and easy to manufacture and to include into PG’s lead detergent (“Wave”). It has been in the market for about three months and has gotten very good reviews (“I don’t how they do it, but my husband’s underwear is as crisp as the day I bought it. Now, is there something you can do to reduce the size he wears? Let me tell you, honey, we’ve been married a long time and my cooking’s beginning to show on him.”). Also, sales of VIM-dosed Wave have increased substantially. There is some debate within the company about whether this sales growth is due to VIM or the increase in advertising dollars. The R&D people have one view, the marketing department has another, and both are documented in sometimes strident emails. There is no debate, however, as to VIM’s importance. PG is contemplating a patent application, but also taking steps to limit access to VIM’s formula to those who they believe have a need to know it. Access doesn’t exactly require a security check and a knowledge of the secret handshake, but not everyone has it. Jerq does, because he’s high enough up and is responsible for overall sales.

And then there’s the product’s stealth character, which results from the serendipitous fact that VIM’s building blocks are similar to the other detergent constituents. This has the effect of hiding it within the mix of other detergent components. A chemical test reveals VIM’s elements and compounds but only buried as modifications of the percentages of a non-VIM detergent. The differences are so minute that it is very hard (debatably impossible as a practical matter) to reconstruct VIM by working backwards from the product on the shelf. On the other hand, in touting this product/additive, PG has in advertisements and securities filings revealed at least some hints at the VIM’s constituent components. So far, no competitor has come out with its own version of VIM in its detergent, but it’s early days yet. For all PG knows, it could be that no one has really tried.

Jerq has had a long and productive career with PG but Jerq is not happy. As he looks out the window from his office in Iowa City, he sees cows when he would much rather see tall buildings and bright lights and the swinging streets of New York City. He would much rather see the shapely silhouettes of secretaries than the large backside of his boss, who considers

barbeques to be major cultural events. Not that Jerq is specifically looking for other work – he’s much too phlegmatic to be so pro-active. But, as so often happens, when you’re in the market for trouble, it comes looking for you. Here, trouble takes the form of a friend cum drinking buddy from graduate school – Bubba Alphonse Grableton – who, notwithstanding his humble background as a failed high school linebacker, managed to complete the Ph.D. program in chemistry and now works at Dupre Industries, a large chemical conglomerate based in Delaware (“Better living through alchemy”). Dupre historically supplied industrial chemical products to the trade but had become enamored of the possibilities for growth in the consumer products arena. It has created a special division within its research group to explore new opportunities there and has had some middling success. It has also sent Bubba to trade shows and, as luck would have it, Bubba and Jerq find each other and renew old ties.

It is an interesting conversation, over many beers, which, as the evening wears on, turn into boiler-makers. Jerq reveals his unhappiness and boredom. Bubba reveals that Dupre has decided that the office that will push Dupre’s new consumer products initiative should be housed in the home of all advertising flimflam, namely, New York City. If something could be arranged, would Jerq be interested? Oh, he would, says Jerq, dreaming of nights in clubs and who knows where thereafter. Indeed he would.

But there is a problem. Jerq had an employment agreement with PG that, at least potentially, could put a damper on this new opportunity. Fortunately, it is the same one he signed when he joined PG years ago as a lowly salesman and it is geared to that sort of activity. He is barred, for one year from the date of termination of his employment, from contacting customers with whom he had contact during the year prior to his termination anywhere in the United States. He also has the usual confidentiality provisions, which survive his termination of employment, and acknowledges that injunctive relief is appropriate in the event of a violation of any of these provisions or other applicable law. One gap in the agreement (draft by a former in-house counsel who left the company to pursue his passion of documenting the migration of brown recluse spiders about five years ago and has not been heard from since) is the absence of a choice of law or venue provision. No one noticed this, or noticed how inapplicable this agreement is to Jerq in his role over the last number of years. Also, PG has never had to litigate its employment agreements. People tend to retire or die in harness – of boredom, Jerq tells Bubba and, now into the vodka shooters, Bubba agrees.

And so it starts – the phone calls, the private emails, the meetings in quiet locations far from Iowa City on weekend visits to Chicago for which Dupre pays. Jerq is fascinated. Bubba and others at Dupre are impressed, and Legal thinks there are ways of working around Jerq’s employment agreement. We’ll put him in New York – Jerq is ecstatic – in charge of strategic marketing and management. He’ll interface with our sales force but go to no trade shows or customer visits for the duration of his contractually barred period. He’ll sit in on development meetings, which Bubba thinks is a very good idea. New blood, he says, just what we’ve been needing. Not that we want to know any of PG’s secrets – far from it. All we want, says Bubba as he stares up at the ceiling imagining the profitable future, all we want is a general direction. What couldn’t you get from PG’s public statements and securities filings. We have brilliant scientists; if I do myself say so. It won’t take much for them to figure out what VIM is and how we can make an even better version ourselves.

On a bright Midwestern Friday, about two o'clock, Jerq walks into his boss' office. Under his left arm, he carries a box containing the contents of his desk and other items unknown to anyone but Jerq. In his right hand, Jerq has a resignation letter, which he slams down on his boss' desk. I'm leaving, he says. Sayonara, I'm blowing this pop stand. When you're in New York, come visit me. Or, on second thought, don't bother, he says. We're going to be competitors and, you know, getting together might not be appropriate. As he leaves, Jerq kicks over his boss' favorite flowerpot. The door slams behind Jerq as his boss picks up the phone.