Next-Generation Manufacturers Must Protect Secrets

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Manufacturing continues to make a strong comeback in the United States. According to a recent Bloomberg article, in July 2013, manufacturing expanded in the U.S. at the fastest pace in more than two years.

While U.S. manufacturing continues to grow, the nature of manufacturing has changed — it is not your father's manufacturing industry. Next-generation manufacturing is marked by innovation, technology, human capital and perhaps most of all, speed.

With speed of innovation comes the increasing need for employers to protect their investment in their employees, as well as their trade secrets and confidential and proprietary information, especially from those competitors seeking a shortcut to compete or catch up. More and more, competitors in the faster-paced manufacturing industry are embarking on corporate raiding campaigns, soliciting and hiring key employees, who possess confidential information, from their competitors.

Technology has also made employers more vulnerable to either the intentional or inadvertent disclosure of trade secrets. With a click of a button, an innovation that has taken years and millions of dollars and man hours to develop can be misappropriated or mistakenly disclosed. Neither business practices nor the law have sufficiently kept pace with these changing realities of next-generation manufacturing. While a recent Wall Street Journal study demonstrated that noncompetition agreements are increasingly in use, traditionally, manufacturing has been relatively reluctant to employ them.

Next-generation manufacturers should reassess whether this resistance to noncompetition agreements continues to make sense. The most effective first line of defense to protect technological innovations, customer relationships and a manufacturer's investment in employees is to employ tailored noncompete agreements and/or confidentiality agreements.

While there are many individualized considerations in drafting such agreements which are beyond the scope of this article, it should begin with a targeted analysis of what information is truly confidential, what competitive interests are at stake and what employees pose a real risk if they depart for a competitor.

The agreement should be drafted with a practical eye toward what is needed for enforcement and should therefore include, for example, a requirement that a departing employee must provide information about the nature of subsequent employment after the employee leaves.

Even without a noncompete agreement, next-generation manufacturers have options to prevent their confidential and proprietary information, and sometimes employees, from walking out the door and down the street to their direct competitors. Before the crisis occurs, and the barbarians storm the gates, next-generation manufacturers should put safeguards in place to protect their confidential and proprietary information.

A few examples include ensuring that documents are properly marked as "CONFIDENTIAL," use of password protection for sensitive information, restricting access to confidential information to only those with a need-to-know, limiting, through technology or otherwise, the ability to copy information to a data storage device or send to an Internet email account and establishing (and enforcing) specific policies regarding the handling and dissemination of confidential and proprietary information in the workplace. Laying the ground rules for dealing with confidential and proprietary information early on in the employment relationship can save headaches when the relationship breaks down.

Once an employee announces s/he is leaving the company, next-generation manufacturers should conduct exit interviews to remind the exiting employee of his/her continuing obligations regarding confidential and propriety information. The exit interview can also provide important details about the exiting employee’s future plans and whether continued monitoring is needed.

Next-generation manufacturers may also want to seek a signed acknowledgment from the exiting employee of his/her continuing obligations regarding confidential and proprietary information. Additionally, next-generation manufacturers should ensure that employees return all company proprietary and confidential information before they leave the company. If there is any question regarding a competitive threat or misappropriation, save the departing employee’s laptop, hard drive and emails.

After a next-generation manufacturer learns that its former employee has gone to a competitor and may be using its confidential and proprietary information to unfairly compete, there are options short of litigation to limit the potential damage caused by the former employee.

Next-generation manufacturers may look to the new employer to assist in the protection process. The new employer may be willing to negotiate the scope of the former employee’s role with the new employer to limit the potential damage. Negotiation of such limitations on the type of position and/or nondisclosure assurances can aid in protection.

Agreed-upon monitoring and/or timed certifications from the former employee and the new employer regarding nondisclosure and/or use obligations may also be an option. Regardless of the agreed-upon remedy, negotiation with the new employer will require a certain level of trust on both sides and possibly some creativity.

If out-of-court options fail to provide the necessary results, even in the absence of a noncompete agreement, next-generation manufacturers still have legal remedies they can pursue in court to stop the offending former employee and/or new employer.

However, while speed is very important in seeking injunctive and other legal relief, lawyers representing next-generation manufacturers must first fully understand the technology and processes, much of which can be very complicated. The better the lawyer can explain the technology and processes to a judge (or subsequently to a jury), the better chance the lawyer has of obtaining the desired relief for the client.

Being able to digest and distill the technology and science and explain exactly how the former employee will inevitably, or at least likely, use the confidential and proprietary information to allow the new employer to use these innovations to play catch up can go a long way in convincing a judge that intervention is required, especially when seeking a preliminary injunction or temporary restraining order.

Once before a judge, available legal theories in the absence of a noncompete or other employment agreement include misappropriation of trade secrets, unjust enrichment, tortious interference and inevitable disclosure. With regard to misappropriation of trade secrets, next-generation manufacturers likely will have more information that constitutes a trade secret.

A misappropriation claim may also allow the recovery of attorneys' fees. However, the information sought to be protected must fall within the definition of a trade secret as defined by the applicable statute and must be subject to protection from disclosure. Not all of a next-generation manufacturer’s confidential and proprietary information will constitute a trade secret.

Corporate raiding — where a competitor hires key talent en masse or in targeted discipline — is the nuclear weapon of unfair competition. While this term gets a lot of press, there is relatively sparse legal authority directly supporting this claim. However, when the motives or methods of the competitor are “dirty” — such as an attempt to cripple a competitor and put it out of business by misappropriating its technology and employees — there are available aggressive and creative legal theories.

An unjust enrichment claim offers a potential remedy against both the former employee and the new employer. If the new employer is obtaining the benefit of the former employee’s use of the next-generation manufacturer’s confidential and proprietary information, the new employer can be held liable for damages.

In many cases, the new employer knows exactly what they are doing by seeking out key employees at their competitors (i.e., corporate raiding). The new employer is hiring the former employee with the intention that the former employee will bring all of the experience and knowledge learned at the next-generation manufacturer to help it catch up.

The former employee not only knows what processes and technology actually work, but s/he also knows what processes and technology do not work. Saving the new employer the time and expense of the trial and error process can be very valuable in the fast-paced world of next-generation manufacturing.

Tortious inference also offers a potential remedy against both the former employee and the new employer. The alleged tortious interference may include a specific existing contract with the next-generation manufacturer's customer or a business expectancy with a specific customer.

Either way, the former employee and the new employer should not be able to use the next-generation manufacturer's confidential and proprietary information to unlawfully interfere with an existing contract or business expectancy. The next-generation manufacturer may also want to use the same corporate raiding-type argument discussed above regarding a claim for unjust enrichment to support its claim of tortious interference.

While still a fairly novel theory, inevitable disclosure provides an additional alternative theory to prevent unfair competition by the former employee and the new employer. Under this theory, the former employee cannot help but disclose confidential and proprietary information to the new employer based on the similarity of job duties and position between the new employer and the next-generation manufacturer.

In many cases, the new employer is counting on this inevitable disclosure. The PepsiCo Inc. v. Redmond, 54 F.3d 1262 (7th Cir. 1995) case is the most often cited case to argue in favor of a claim of inevitable disclosure. However, depending on the jurisdiction, this theory may or may not be accepted.

As the manufacturing process evolves to meet the demands of today's marketplace, so too must the processes and procedures for protecting confidential and proprietary information. The same speed and creativity required of next-generation manufacturing must also be used in protecting a next-generation manufacturer's confidential and proprietary information.

Starting the protection process early in the employment relationship and having a plan in place to react if a competitor tries to unfairly misappropriate a company's innovations is crucial to protecting investments. A smart manufacturer in today's economy must ensure that its legal safeguards keep pace with its technological innovations.

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