Preparing to Quit: Employee Competition versus Corporate Opportunity

Charles Tait Graves†

Before leaving a job, employees and corporate fiduciaries are generally permitted to take preparatory steps to form a new, directly competing business and to conceal such plans from the company. This article identifies this principle as the Preparations to Compete Doctrine. This is the first article to comprehensively assess the nationwide case law on the Preparations to Compete Doctrine and to explain what is permitted and what is prohibited when employees make preparations to leave and to compete with their employer. To that end, this article will identify and propose solutions for two ambiguities in the case law: the slippage some courts have allowed between this doctrine and the law of corporate opportunity, and the treatment of co-workers who make plans to depart together, rather than acting alone. It will also address the effect of contract terms on such preparations.

The Preparations to Compete Doctrine allows employees and officers to secretly make plans to compete without disclosing such plans to the employer. The Corporate Opportunity Doctrine, by contrast, is a well-known principle of agency and corporate governance law that requires certain fiduciaries to inform the company about the existence of potential business opportunities before acting on them for self-gain. Both doctrines serve the public good, for different reasons. But courts sometimes conflate these distinct bodies of law to the detriment of employees making plans to leave. To distinguish these doctrines, and to protect the latitude otherwise provided to departing executives and employees, courts should draw a

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†. Partner, Wilson Sonsini Goodrich & Rosati, San Francisco, and adjunct faculty, UC Hastings Law. This article benefitted greatly from research assistance by Scott O'Halloran, UC Hastings Class of 2018. I am also thankful for comments by Camilla Hrdy, Sharon Sandeen, Elizabeth Tippett, and Deepa Varadarajan on prior drafts. This is the second in a three-part series addressing under-analyzed areas of intellectual property and employee mobility law, which impact creative employees when changing jobs. Departing employees can face a tangled body of contract, tort, and statutory claims brought by former employers. Academics and practitioners have provided little commentary about some such areas of law. This relative inattention is surprising given the important policy concerns so often at stake in mobility disputes.

clear line between ideas that are the product of the departing person's mind, and business opportunities that exist externally and independent of the departing person's thoughts. A plan to leave and start a new company is not the same thing as a business opportunity that arises independently, from a third party, and which is distinct from the employee's own preparations to leave. Even if unusual scenarios may blur these lines in atypical cases, striking this balance will protect the important public policy rationales behind both doctrines while keeping the lanes clear for the societal benefits that flow from providing employees a runway for their departures.

I. INTRODUCTION

When changing jobs, many if not most people search for and accept a new position before resigning their current position. And, at least where the employer did not (or could not lawfully) impose a non-competition covenant, many employees join a company that competes with their former employer. In other cases, employees plan to leave and launch a new, competitive venture rather than joining an already-established company. Few want to, or can afford to, leave a job before beginning to plan for the next one.

Recognizing this practical reality, the law provides latitude for employees—including top executives—to plan new jobs, to take meaningful steps to start a new business before leaving the current job, and to conceal such plans from the employer. Courts call this space in which to lawfully plan one's next career move "preparations to compete." This body of law is distinct from other legal doctrines seen in employee mobility disputes—in particular, trade secret law and the law of restrictive covenants.

The Preparations to Compete Doctrine allows officers and employees to incorporate a new venture, to prepare infrastructure for it, to seek funding, and other, similar steps without informing the employer about such plans—albeit with some material restrictions. This allowance for pre-resignation preparatory activities is a public good. Without it, employees would be required to resign, and potentially live without a paycheck for some period, in order to plan the outlines of a company that would only be operational sometime later. That would dissuade such new ventures, at the cost of employees' interests and the wider societal gain from the formation of potentially innovative new enterprises. And it would induce employees to remain in jobs where workplace conditions are poor, where a company is failing, or where the employee is not putting his or her skills to best use. By allowing people to prepare to compete while still on the current employer's payroll, the law allows for relatively seamless transfers from one job to the next.

Case law in this area goes back many decades but has received little scholarly attention. One reason may be that this area of law falls on the margins of trade secret law, corporate governance law, and employment law, and not squarely within any of them. This article is the first to collect and summarize the mass of cases addressing preparations to compete around the country. It will highlight permitted activities and prohibited acts that are largely consistent across different jurisdictions.

This article will also explore two important inconsistencies in how courts have addressed the freedom to plan one's next venture before resigning. First, courts have diverged on the question of whether a person planning to leave may confer with, and plan together with, a group of co-workers or other co-founders, or must remain a solitary actor. The latter construction is too restrictive and fails to recognize those employees' plans to leave often arise organically from group conversation, and not from isolated reflection.

Second, courts have sometimes conflated lawful preparations to compete with a different doctrine, serving different purposes, that requires higher-ranking company fiduciaries to disclose to the employer a plan to engage in a business relationship with a third party before taking action—the law of corporate opportunity (the "Corporate Opportunity Doctrine"). Unwinding this confusion and proposing a rule to keep these doctrines apart is the primary goal of this article.

It is easy to understand why courts have sometimes conflated the Preparations to Compete Doctrine and the Corporate Opportunity Doctrine. Both govern the activities of those who qualify as corporate fiduciaries (meaning officers and directors and sometimes other management-level employees).[1] Both speak to a fiduciary's activities outside of his or her daily job responsibilities. Yet one requires disclosure, and one permits concealment.

The Corporate Opportunity Doctrine prohibits fiduciaries from diverting potential business leads with third parties for self-gain, without first notifying the company so that the company can pursue the opportunity if it so chooses. Just as the Preparations to Compete Doctrine serves important public policy objectives, this doctrine serves the public good by preventing self-dealing by executives and directors.

Courts sometimes blend the two sets of rules together, by conflating an employee's own idea to start a new venture with the concept of an outside business opportunity that exists whether the fiduciary learns about it or not. This confusion can endanger the Preparations to Compete Doctrine, which by its very nature allows employees to dream up ideas for a new company without disclosure to the employer.

This article proposes a simple test to distinguish preparations to compete from corporate opportunities, a test whose adoption would reduce confusion between two distinct rules serving two distinct purposes: where an employee's idea for a new company is his or her own idea, or an idea generated with co-workers and friends, the Preparations to Compete Doctrine alone should control. But where an opportunity arises from an external source, and is presented to the employee in his or her fiduciary capacity as a representative of the company, that

1. It should be stressed that the Preparations to Compete Doctrine also protects ordinary employees from claims of breach of the duty of loyalty—not just the higher-level managers and directors who qualify as fiduciaries. Only certain fiduciaries, however, are subject to the Corporate Opportunity Doctrine. The Corporate Opportunity Doctrine is not an issue for the rank-and-file or for every employee who qualifies as a "fiduciary" for some purposes.

is where the Corporate Opportunity Doctrine alone should control. Courts err when they treat an employee's self-generated plan to leave and start a new business and opportunities that have a separate existence in the world outside the employee's mind as the same thing. To be sure, not every scenario may allow such a straightforward binary. But most will, and courts can benefit from a clear test.

The lack of clarity in the rules for preparing to quit compound the many legal challenges former employers can bring against departing employees. When a former employer wants its attorneys to slow down an employee who has changed jobs, or to use the employee's job change as a device to inhibit a competitor, the law provides a broad set of options: allegations of trade secret misappropriation, non-competition covenants and other restrictive contract terms, invention assignment contracts, and more.[2] Where an employee has taken nothing from the employer and attempted to create a new company in personal time, there is still a muddle of legal doctrines that can entangle those who seek to depart in good faith.

This article seeks to define and clarify the Preparations to Compete Doctrine as one contribution to demystifying that muddle. It will also discuss the effect of contract terms on preparatory activities. Ultimately, courts need a roadmap to guide litigants through the thicket of legal doctrines that may be in play when a fiduciary or an ordinary employee makes plans for a new, separate venture. To that end, this article proposes that courts adopt this interpretive framework:

(1) The Preparations to Compete Doctrine should apply, and thus the employee may conceal his or her future plans from the employer, when

   a. The employee has an idea to start a new, competing venture;
   b. The idea was the employee's own, or was developed with co-workers or friends who had no intention of presenting a business opportunity to the employer;
   c. The idea, in and of itself, is not intellectual property that would belong to the employer under the employee's intellectual property assignment obligations owed to the employer; and

2. Trade secret law is increasingly a focus of scholarly attention, a welcome contrast to its neglected status in years past. Some of the recent contributions, displaying a wide range of approaches and subject matter, include Camilla Hrdy, *The General Knowledge, Skill, and Experience Paradox*, 60 B.C. L. REV. 2409 (2019); Sonia K. Katyal, *The Paradox of Source Code Secrecy*, 104 CORNELL L. REV. 1183 (2019); Deepa Varadarajan, *The Uses of IP Misuse*, 68 EMORY L.J. 739, 783 (2019); Deepa Varadarajan, *The Trade Secret-Contract Interface*, 103 IOWA L. REV. 1543 (2018); Richard F. Dole, Jr., *The Contract Exception to the Uniform Trade Secrets Act and Its Implications for the Federal Defend Trade Secrets Act*, 34 SANTA CLARA HIGH TECH L.J. 362 (2018); Rebecca Wexler, *Life, Liberty, and Trade Secrets*, 70 STAN. L. REV. 1343 (2018); Kurt M. Saunders and Nina Golden, *Skill or Secret?— The Line Between Trade Secrets and Employee General Skills and Knowledge*, 15 N.Y.U. J.L. & BUS. 61 (2018); David S. Levine & Christopher B. Seaman, *The DTSA at One: An Empirical Study of the First Year of Litigation Under the Defend Trade Secrets Act*, 53 WAKE FOREST L. REV. 105 (2018); Sharon K. Sandeen & Christopher B. Seaman, *Toward a Federal Jurisprudence of Trade Secret Law,* 32 BERKELEY TECH. L.J. 829 (2017). However, much work remains to be done in trade secret law and in the many subsidiary areas of law at issue when employees change jobs.

d. Planning with co-workers or friends that develops organically and does not rise to sabotage or other misconduct forbidden by the Preparations to Compete Doctrine should be permissible.

(1) If a fiduciary or ordinary employee creates intellectual property that falls within the scope of his or her contract-based or fiduciary-based intellectual property assignment duties to the employer, such questions should be adjudicated under intellectual property assignment law. The Preparations to Compete Doctrine does not protect such conduct, and the Corporate Opportunity Doctrine plays no role in such questions.

(2) By contrast, the Corporate Opportunity Doctrine should apply, and thus an employee who qualifies as a higher-ranking fiduciary is obliged to disclose an opportunity to the employer, when

a. A third party business opportunity for the company exists independently of an employee's initiative, outside the corporation;

b. The opportunity is thus not the product of the employee/officer's mind—it is not merely the employee/officer's own idea, or an idea generated with co-workers or friends, to launch a competing venture; and

c. The elements of the Corporate Opportunity Doctrine as it is applied in a given jurisdiction require disclosure to the company before the fiduciary can take advantage of the opportunity in his or her individual capacity.

d. In hybrid cases where there are elements of both a corporate opportunity and preparations to form a new business, traditional limits on the Corporate Opportunity Doctrine—such as whether the opportunity would have been available to the company and whether it was within the company's expectancy or line of business—may assist courts in deciding which doctrine should control.

Adopting this flowchart will prevent courts from commingling distinct doctrines that serve distinct purposes. It will ensure that employees retain appropriate latitude to plan new ventures— including planning together with friends.

II. Thinking About Quitting: The Context, and the Risks Employees Must Traverse

Deciding to quit might come suddenly, in a flash. But it might also develop slowly, fuzzily, inchoate at first. A plan to start a new company may only come into sharper focus over time. One's employer may be doing poorly. Managers may be incompetent, overbearing, or worse. Or the current job may be just fine, but the employee believes he or she would be happier pursuing an independent project.

Sometimes an employee might form an idea to leave, and to start a new company, entirely on his or her own. Sometimes a friend or co-worker might suggest the idea. In other cases, the idea itself might coalesce only as co-workers together discuss their dissatisfaction with the job, or their dreams for the future. In the latter case in particular, no single individual could be credited with initiating a plan to leave and do something else.

This is the zone from which the legal rules allowing employees some leeway to plan for a new venture arise. To be sure, actually operating a new business (or working for a second, competing employer) while still on the employer's payroll is never permitted.[3] As well, misappropriating trade secrets or violating an invention assignment contract is also never permitted.

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3. Such "in-term competition" is a different topic and not the subject of this commentary. A large number of cases address such activities and generally find that employees violate fiduciary duties or duties of loyalty. *See generally* Eckard Brandes, Inc. v. Riley, 338 F.3d 1082, 1086 (9th Cir. 2003) (affirming judgment for plaintiff where former employees violated their duties of loyalty by starting and operating a competing business while still employed); Blackbird Tech., Inc. v. Joshi, No. 5:15-cv-04272-EJD, 2015 U.S. Dist. LEXIS 136505, at *12–17 (N.D. Cal. Oct. 6, 2015) (granting preliminary injunction for claims including breach of the duty of loyalty in easy case for plaintiff where defendant not only started competing business while still employed but in suspicious circumstances appeared to have taken source code and "started this new venture using confidential and proprietary information" from the plaintiff); T.A. Pelsue Co. v. Grand Enters., Inc., 782 F. Supp. 1476, 1483, 1485, 1489 (D. Colo. 1991) (unusual combination of patent infringement case and breach of fiduciary duty allegations; noting rule allowing preparations to compete but entering judgment against officer who, while still employed and having announced retirement, began designing products for competing company and lied about it to his employer; also finding patent infringement of competing products); Red Top Cab Co. v. Hanchett, 48 F.2d 236, 238 (N.D. Cal. 1931) (officer created competing entity and operated it in competition with plaintiff while still employed); Huong Que, Inc. v. Luu, 150 Cal. App. 4th 400, 414–17 (2007) (affirming trial court's preliminary injunction where defendants engaged in active competition during the term of an agreement by misusing the plaintiff's customer list and diverting customers to competing business; court distinguished in-term actual competition from preparations to compete in the future); Gen. Advert. Agency, Inc. v. Komer, 251 Cal. App. 2d 805, 808–09 (1967) (director secretly formed competing entity and diverted clients to it while still employed); Xum Speegle, Inc. v. Fields, 216 Cal. App. 2d 546, 554 (1963) (director formed competing entity while still employed and diverted plaintiff's customers to it); Hall v. Dekker, 45 Cal. App. 2d 783, 787 (1941) (director helped organize a competing entity by working for it and diverting customers from his employer to competitor, all while still employed); Triton Constr. Co. v. E. Shore Elec. Servs., Inc., No. 3290-VCP, 2009 Del. Ch. LEXIS 88, at *35–38 (May 18, 2009) (employee breached fiduciary duty by working two jobs at once for 22 months where he misused employer's confidential information and "perform[ed] similar work" in "direct competition"; "the fact that he worked for both [companies], sometimes on bids for the same projects, for more than twenty-two months belies the notion that he was making preparations to compete.").

Despite the law's allowance for taking steps to compete before leaving, employees who resign and commence competition against the former employer face uncertainty and risk if the employer hires lawyers to threaten or initiate litigation to disrupt the former employee's activities. Most states permit employers to impose non-competition covenants which, for some stated period of time, simply prohibit the employee from working for a competitor, or operating a new, competitive business. Despite some degree of notoriety in recent years and legislative changes in some states (such as Massachusetts in 2018),[4] non-competes remain available in most places, for most employers.[5] Similar contract clauses against solicitation of customers and co-workers are also allowed in most states, and one state (South Carolina) even permits employers to require employees to hand over new inventions created for the first time after the employee has departed.[6]

Equally dangerous are claims of trade secret misappropriation, where the former employer may sue the former employee and then resist identifying the alleged trade secrets with specificity for as long as the court permits that tactic, and then shape-shift the purported intellectual property during discovery to better resemble the new company's work. And even if the departing employee was scrupulous in creating work for the soon-to-be-formed company away from the company on nights and weekends, the tricky rules of employee invention agreements and the Copyright Act's Work for Hire Doctrine may still ensnare that effort.[7]

In short, employees who leave to join or form a competitor present opportunities for employers to misuse the legal system for anticompetitive purposes. The interest of the individual is all too easy to ignore. Courts facing claims of trade secret misappropriation may not inquire why the person left the employer, or examine workplace conditions. Both judges and juries may prefer to focus on simple and emotional accusations of "theft" rather than wade through complex technology to determine if misappropriation truly took place. The bewildering thicket of legal obligations is a trap for the unwary; even those acting in good faith and intending to avoid trouble may find themselves in the crosshairs.[8]

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4. *See* MASS. GEN. LAWS ANN. ch. 149 § 24L(b)(vii) & (c) (West 2018) (restricting permissible noncompetition agreements in that state).

5. *See generally* BRIAN M. MALSBERGER, COVENANTS NOT TO COMPETE: A STATE-BY-STATE SURVEY (David J. Carr et al. eds., 12th ed. 2017) (tallying enforceability of restrictive covenants by state).:

6. *See* Milliken & Co. v. Morin, 731 S.E.2d 288, 295 (S.C. 2012) (finding a one-year holdover clause enforceable, even though it covered inventions created post-employment and without use of the employer's trade secrets).

7. I recently analyzed these two bodies of law in *Is the Copyright Act Inconsistent with the Law of Employee Invention Assignments?*, *Is the Copyright Act Inconsistent with the Law of Employee Invention Assignment Contracts?*, 8 NYU J. INTELL. PROP. & ENT. L. 1 (2018).'

8. *See*, *e.g*., David Orozco, *Strategic Legal Bullying*, 13 N.Y.U. J.L. & BUS. 137, 142, 162 (2016) (excellent and all-too-rare article analyzing different ways in which parties can use the cost and complexity of legal process to accomplish external goals against "a much weaker party"—including employees targeted by former employers). Indeed, in a sort of performative contradiction, attorneys may bring

The problem is compounded because few employees are in a position to quit and then spend months without a paycheck or financing while developing a plan for a new company. Thus, while the law provides latitude for departing employees to plan a new venture, the list of potential claims a former employer can bring against the employees heightens the need for clearly-defined rules that ordinary employees can understand and follow without specialized legal assistance. Ambiguity in the rules favors the employer, which can exploit gray areas and use its greater resources to damage a new rival.[9]

This critique is not new. Scholars have focused on employee mobility and the social goods it provides—whether to individuals or to the larger economy—for many years.[10] Examining lawsuits aimed at employees' preparatory efforts to plan a new business before leaving adds a significant layer to this important area of analysis.[11]

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lawsuits against mobile employees based on acts they personally have engaged in, such as moving to a different, competing law firm.

9. While extreme, there are lawsuits where a former employer challenges even the notion that the employee is free to seek other work while still employed. *E.g.*, United States Nat'l Title Co. v. Cayton, G051810, 2018 Cal. App. Unpub. LEXIS 531, at *21–22 (Jan. 23, 2018) (denying former employer's appeal of jury verdict in favor of former vice president who commenced a job search some 30 to 60 days before resigning; as to claim for breach of fiduciary duty, noting that a corporate officer has a right to make preparations to compete; "[Plaintiff] points to no evidence [defendant's] productivity decreased in any manner attributable to his decision to look for other work, or that [plaintiff] otherwise suffered harm from his job search."); Am. Home Shield of Cal., Inc. v. Fidelity Nat'l Home Warranty Co., D039241, 2003 Cal. App. Unpub. LEXIS 4743, at *34–35 (May 14, 2003) (affirming trial court's sustaining of demurrer to breach of fiduciary duty claim premised on employee negotiating new employment with a competitor while still employed).''

10. *See*, *e.g*., On Amir & Orly Lobel, *How Noncompetes Stifle Performance*, HARV. BUS. REV., Jan–Feb. 2014, at 26; CATHERINE L. FISK, WORKING KNOWLEDGE: EMPLOYEE INNOVATION AND THE RISE OF CORPORATE INTELLECTUAL PROPERTY 1800–1930 (2009); Katherine V.W. Stone, *Human Capital and Employee Mobility: A Rejoinder*, 34 CONN. L. REV. 1233 (2002); Katherine V.W. Stone, *The New Psychological Contract: Implications of the Changing Workplace for Labor and Employment Law*, 48 U.C.L.A. L. REV. 519 (2001); Pat K. Chew, *Competing Interests in the Corporate Opportunity Doctrine*, 67 N.C. L. REV. 435, 501–02 (1989) (advocating that the corporate opportunity doctrine be reimagined to recognize the individual and social interests at stake—not merely the corporation's interests—in fiduciary duty disputes).: *: :* '

11. Commentators, including this author, have discussed the Preparations to Compete Doctrine, but this is the first full-fledged article to gather and analyze the nationwide case law. *See* James A. DiBoise and Tait Graves, *Preparing to Compete: Defeating a Corporate Opportunity Claim Against Departing Fiduciaries*, IP LITIGATOR, May/June 2004 at 1–3; JAMES POOLEY, TRADE SECRETS § 9.06(2) (2018) (survey of major cases; this author wrote portions of the cited sub-section); *see also* Scott W. Fielding, Note, *Free Competition or Corporate Theft?: The Need for Courts to Consider the Employment Relationship in Preliminary Steps Disputes*, 52 VAND. L. REV. 201, 205, 221–223 (1999) (surveying the doctrine and advocating that ordinary employees be granted greater leeway to make preparations to compete, including as to contacting customers before leaving); Hanna Bui-Eve, Note, *To Hire or Not to Hire: What Silicon Valley Companies Should Know About Hiring Competitors' Employees*, 48 HASTINGS L.J. 981, 991–92 (1997) (good overview of the multiplicity of claims employers can bring against departing employees; explaining preparations to compete concept); *cf.* William Lynch Schaller, *Disloyalty and Distrust: The Eroding Fiduciary Duties of Illinois Employees*, 3 DEPAUL BUS. L.J. 1, 3, 5, 53, 66–75 (1990) (article attacking the Preparations to Compete Doctrine in Illinois by a practitioner who represented employers against employees; the author complains that "something of an assault upon the citadel of employer prerogative is underway," and says the doctrine is "bizarre" and "profoundly mistaken and should not be permitted"; advocating civil RICO claims to deter preparations to compete as well as

For this article, we will assume that a departing employee or officer has not misappropriated the employer's trade secrets, has not violated an invention assignment agreement or the Work for Hire Doctrine under the Copyright Act, and either does not have a non-competition covenant or is preparing for a new business venture that will launch only after an applicable non-competition covenant has expired. To focus the issues explored in this article, the model employee has a general idea or concept to compete against the present employer in the same or similar line of business, but has not yet created new inventions or other intellectual property in the service of that goal. Whether stemming from a positive impulse or frustration with workplace conditions, he or she has declared, "I can do this better."

III. The Law of Preparations to Compete: Permitted and Prohibited Activities

For many decades, courts around the country have allowed for a zone of pre-resignation, preparatory activities that employees, including executives, can covertly engage in to prepare to compete against the current employer.[12] The case law has been generally consistent from state to state, but there are inconsistencies and ambiguities.[13] Some of the problematic areas include whether the plans of an employee who qualifies as a fiduciary fall within the Corporate Opportunity Doctrine (which requires disclosure to the company)[14], whether co-workers can plan to leave together[15], and whether the employer can prohibit preparations to compete by contract.[16] It is also unclear whether lower-level employees are permitted greater freedom to prepare to compete and, if so, where exactly the lines are drawn between ordinary employees and the type of higher-level fiduciaries subject to more burdensome obligations.[17]

These uncertainties create the risk of accidental violations, as ordinary employees may not seek legal advice when planning new career opportunities. Such uncertainly on the part of employees only benefits employers, who can take advantage of inadvertent slip-ups to attack a departing employee's new business. This article explores two important ambiguities in the case law and proposes solutions.

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lawsuits against attorneys for engaging in "fraudulent schemes" and "conspiratorial activities" by advising employees to engage in pre-resignation planning; the author seems to contend that preparations to compete lead ineluctably to trade secret misappropriation, but fails to seriously consider whether society as a whole, not to mention individual employees, have interests in allowing space for people to plan their next ventures without forcing them to quit and be unemployed during such planning)."

12. Perhaps needless to say, the employer may always prepare to terminate an employee without disclosing such plans to the employee. Recognizing that asymmetry, however, helps explain why the Preparations to Compete Doctrine exists.

13. *See infra* § IV.

14. *See infra* § III.

15. *See infra* § IV.A.

16. *See infra* § IV.B.

17. *See infra* note 18.

A. The General Rules Allowing Preparations to Compete

The Preparations to Compete Doctrine is fundamentally a rule of nondisclosure: it defines the range of activities one can engage in and conceal from the employer while still employed. The doctrine applies to all employees, whether one is a fiduciary (however that concept is defined in a given jurisdiction) [18] or a non-fiduciary (in which case the ordinary duty of loyalty to one's employer is at stake).[19]

Two major cases illustrate how the Preparations to Compete Doctrine operates—one which found in favor of departing fiduciaries, and one which did not. In 2001, the Iowa Supreme Court reviewed a case where a family janitorial business fell apart.[20] Part of the family—all fiduciaries—began planning to set up their own company before quitting. Among other things, they contacted a realtor about warehouse space, investigated the price of phone systems, investigated new hardware and software, sought a line of credit from a bank, and arranged for new signs for the new business. However, they did not solicit customers or employees, did not use the time or property of the current employer, took nothing with them, and did not tell vendors about their plans in advance.[21] The court affirmed the dismissal of the plaintiff's claim for breach of fiduciary duty and the lower court's finding that the defendant had merely "investigat[ed] the possibility opening a competing business. He committed no act of disloyalty. He walked the fine line between investigating it and doing it."[22] In enunciating a general rule, the court held that "mere preparation to form a competing business organization" does not breach a fiduciary duty "unless it is shown that something

18. The lines between fiduciaries and ordinary employees, and the reasons why a duty of loyalty exists beyond the employment contract, are not the subject of this article. That said, there have been worthwhile commentaries exploring why lower-level employees are subject to a duty of loyalty, and advocating for a less restrictive approach. *See* Marian K. Riedy and Kim Sperduto, *At-Will Fiduciaries? The Anomalies of a "Duty of Loyalty" in the Twenty-First Century*, 93 NEB. L. REV. 267, 268, 271, 293–95 (2014) (asserting that the duty of loyalty "deserves close scrutiny" and, as to preparations to compete, noting the difficulties in drawing distinctions between lawful and unlawful preparations and advocating eliminating the duty for at-will employees in order to "reduce the emotional and economic toll"; "[b]ut what real people do when they are planning to change jobs or open a new business rarely fits neatly into one of these [permissible] categories, and everyone does these things a different way."); Charles A. Sullivan, *Mastering the Faithless Servant?: Reconciling Employment Law, Contract Law, and Fiduciary Duty*, 2011 WIS. L. REV. 777, 819 (2011) (advocating that the faithless servant doctrine, under which employees can be required to pay back salary for breaches of duty, be confined to true fiduciaries "to drastically narrow the class of potential faithless servants.").

19. Some courts have held that everyone is subject to at least to a duty of loyalty. *See, e.g.*, E.D.C. Techs., Inc. v. Seidel, 216 F. Supp. 3d 1012, 1016–17 (N.D. Cal. 2016) (denying motion to dismiss cause of action for breach of the duty of loyalty where employee allegedly developed "a competing business while still employed"; employee argued that claim could only exist in a fiduciary category, but court held that all employees owe a duty of loyalty); Otsuka v. Polo Ralph Lauren Corp., 2007 U.S. Dist. LEXIS 86523, *7–8 (N.D. Cal. Nov. 9, 2007) (same; relying on Restatement (Third) of Agency).

20. *See* Midwest Janitorial Supply Corp. v. Greenwood, 629 N.W.2d 371, 374–75 (Iowa 2001).

21. *See id.* at 374.

22. *See id*.

in the preparation to compete produced a discreet harm to the former business beyond the eventual competition that results from the preparation."[23]

A well-known 1966 California case stated a similar general rule while finding that the defendant had crossed far over the line. In *Bancroft-Whitney Company v. Glen*, an executive of a company which published books for the legal profession in San Francisco was approached by a competing company about leaving to set up a competing regional office.[24] He then set about soliciting a large number of employees to join the competitor as well, using confidential information to do so, and engaged in sabotage of a sort by advising the company not to give raises to such employees.[25] When the company confronted him based on rumors, he dishonestly denied knowledge of his plans.[26] The California Supreme Court reversed a judgment in favor of the defendants on the plaintiff's breach of fiduciary duty claim.[27] At the same time, it announced a general rule that "[t]here is no requirement that an officer disclose his preparations to compete with the corporation in every case, and failure to disclose such acts will render the officer liable for a breach of his fiduciary duties only where particular circumstances render nondisclosure harmful to the corporation."[28]

These general rules are reflected in two Restatements. The Restatement (Second) of Agency, from the 1950s, and its 2006 successor reflect the general principle that an agent cannot engage in in-term competition with the principle—that is, he or she cannot operate a competing business while still employed—but a comment to that principle recognizes the distinction between actual competition and preparations to compete.[29] In turn, the Restatement of Employment Law notes specific acts that are permitted and prohibited when preparing to compete, such as "setting up offices or production facilities and

23. *See id.* at 376. The court probably meant "discrete harm" rather than "discreet harm."

24. *See* 64 Cal.2d 327, 330–31 (1966).

25. *See id*. at 333–343.

26. *See id*. at 334, 336–37.

27. *See id.* at 329–330.

28. *See id*. at 347.

29. *See* RESTATEMENT (SECOND) OF AGENCY § 393, cmt. e (1958) ("Even before the termination of the agency, he is entitled to make arrangements to compete, except that he cannot properly use confidential information peculiar to his employer's business and acquired therein."). The Restatement (Third) recognizes the same principle: "During that time [of agency], an agent may take action, not otherwise wrongful, to prepare for competition following the termination of the agency relationship." RESTATEMENT (THIRD) OF AGENCY § 8.04; *see also id.* at cmt. c (2006) (providing a more detailed description of conflicting interests at stake and emphasizing the need for a "careful assessment of all relevant factual circumstances."). The newer commentary appears to take a slightly less expansive view of preparations to compete, for example by asserting that an agent might harm the employer simply by knowing better than an outsider the skills of other employees who might join the new venture. *See id*. That commentary begs the question whether the general skills of co-workers are the employer's exclusive property, or whether such knowledge is not protectable via litigation. For an exploration of that issue, see Hrdy, *supra* note 2.

obtaining financing for a competing venture" versus soliciting "the employer's customers."[30]

B. Permitted Preparatory Activities

Scores of cases have addressed the Preparations to Compete Doctrine across the country.[31] In totality, this allows us to assess which specific activities employees planning to leave and form a new business may safely engage in without informing the employer.[32]

To begin with, simply conceiving the idea for a new business is not the subject of any case law, and is therefore not forbidden in and of itself. Daydreaming is not unlawful. That said, it is important to distinguish an employee's creation of information that results in intellectual property, versus the idea to engage in a business where that concept, in and of itself, is already in the public domain or otherwise too general to constitute any form of intellectual property. In the former situation, the law of invention assignments and the law of Works for Hire under the Copyright Act dictate whether the employee or the employer owns the intellectual property. In the latter situation, merely having the idea to launch a new venture is nobody's property, and the employee is free to engage in such thought.

Seeking legal advice is also permissible, though—perhaps predictably—at least some employers have taken umbrage at the notion that an employee might seek advice from an attorney on how to lawfully compete.[33] And, one's attorney

30. *See* RESTATEMENT OF THE LAW, EMPLOYMENT LAW § 8.04 cmt. c (2015). It should be noted that while this Restatement accurately cites case law regarding preparations to compete, its drafting was criticized as taking a pro-employer position on the duty of loyalty and on restrictive covenants. *See, e.g.*, Lea VanderVelde, *The Proposed Restatement of Employment Law at Midpoint*, 16 EMP. RTS. & EMP. POLICY J. 359 (2012).

31. It is important to note that no search for case law can be deemed complete when one is gathering law in an area where not all courts may use the same vocabulary to describe functionally similar disputes. Moreover, much of what goes on in trial courts is never reported, and thus cannot be located on LEXIS, Westlaw, or Google Scholar. And of course, many individuals plan new ventures and resign without resulting litigation, or the dispute is resolved outside of court. This article reflects research on LEXIS and Westlaw databases through the end of 2018, the author's collection of cases on this topic gathered since 2002, and additional searches in 2018 by a research assistant. It reports unpublished cases as well as appellate decisions, because the former are important in assessing how a given jurisdiction will react to a given set of facts, even if the decision does not constitute precedent. It is believed to be reasonably complete as to what is reported on the standard databases.

32. We start with a description of permitted activities before reaching prohibited conduct in order to highlight the former. Litigation in mobility disputes tends to focus on prohibited conduct (because the plaintiff makes allegations of wrongdoing, rather than presenting courts with a recitation of lawful acts), while a central premise of this article is that courts and scholars can better shape policy with the full range of permissible conduct in mind.

33. *See* Les Fields/C.C.H.I Ins. Serv. v. Hines, No. 15-cv-03728-MEJ, 2016 U.S. Dist. LEXIS 162163, *29–47 (N.D. Cal. Nov. 22, 2016) (granting in part and denying in part defendant's summary judgment motion as to "business interference" and related claims; rejecting notion that consulting an attorney before leaving was wrongful—the former employer argued it showed a guilty conscience—but finding triable fact issues where defendants caused mass resignation of six employees (80 percent of workforce) "at the height of [employer's] busy season"); Syncom Indus. v. Wood, 488 B.R. 265, 277–78 (Bankr. D. Conn. 2013) (where officer left and started a competing business, and then declared bankruptcy

can lawfully file papers to incorporate the new entity before the founder or founders resign from the current job.[34] Along similar lines, one's attorney may also file a trademark registration for the new entity.[35]

An employee or officer planning to leave also may seek funding.[36] For a traditional new business, that funding source might be a bank loan, whereas a technology start-up might seek seed funding from investors.

Taking steps to build the physical infrastructure of a future business—renting space, buying equipment, gathering information, and the like—is also permitted.[37] Making a bid for future work, so long as the bid does not compete with the current employer, can similarly be protected. [38]

And while material use of the employer's time or resources constitutes a breach of duty, some courts have found *de minimis* use of the employer's resources is not sufficient to rise to the level of a breach.[39]

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after being sued, former employer's attempt to pursue claim for breach of the duty of loyalty was denied upon findings that departing officers preparatory steps of seeking a loan, consulting an attorney, and telling two co-workers about his future plans did not violate his duty, and that employer's trade secret misuse allegations were insufficient); Mintz v. Mark Bartelstein & Assoc. Inc., 906 F. Supp. 2d 1017, 1037–38 (C.D. Cal. 2012) (granting summary judgment for former employee as to former employer's claim for breach of the duty of loyalty in wide-ranging set of claims and counterclaims; despite employer's charge that employee violated duty of loyalty where prospective future employer agreed to pay for his legal costs and employee signed joint defense agreement and met with prospective employer's attorneys, such conduct fell within right to make preparations "for future employment"); Advanced Arm Dynamics of New Eng., LLC v. Comprehensive Prosthetic Serv., LLC, No. CV065004605S, 2011 Conn. Super. LEXIS 444, *32–60 (Feb. 23, 2011) (in an unusually comprehensive bench trial ruling, court considered the Second and Third Restatements of Agency regarding preparations to compete and found that officer had violated fiduciary duty by pre-departure solicitation of co-workers and patients, and by taking confidential information, but not by acts such as incorporating a new company, having an attorney obtain a business license, seeking office space, and ordering equipment).

34. For citations, see Appendix A.

35. *See* Abraham Zion Corp. v. Lebow, 593 F. Supp. 551, 571 (S.D.N.Y. 1984), *aff'd*, 761 F.2d 93, 105 (2d Cir. 1985) (entering judgment for defendant former employees who made preparations to compete and registered a trademark for new company while still employed, but did not misuse confidential information or otherwise breach fiduciary duties).

36. *See* Syncom Indus., Inc. v. Wood (In re Wood), 488 B.R. 265, 277–78 (Bankr. D. Conn. 2013) (holding that former officer who left company, started competing business, then declared bankruptcy after being sued did not breach duty of loyalty when departing officers took preparatory steps of seeking a loan, consulting an attorney, and telling two co-workers about his future plans did not violate his duty, and that employer's trade secret misuse allegations were insufficient); Midwest Janitorial Supply Corp. at 374–75 (director sought line of credit for next company); Md. Metals, Inc. v. Metzner, 382 A.2d 564, 571 (Md. 1978) (officers contacted a prospective investor for new company).''

37. For citations, see Appendix B.

38. *See* Paul M. Wolff Co. v. Miller, 2011 Wash. App. LEXIS 2869, *10 (Wash. Ct. App. Dec. 28, 2011)(unpublished)(affirming summary judgment in favor of departing employees; noting rule allowing preparations to compete; employees bid on non-competitive jobs while still employed and "did not a sign contract" before terminating employment).

39. *See* DeWitt Stern Grp., Inc. v. Eisenberg, 257 F. Supp. 3d 542, 585–86 (S.D.N.Y. 2017) (granting summary judgment for defendant accused of emailing files to self before leaving for purposes of contacting customers; because employee did not misuse confidential information or usurp customer opportunities, and merely considered information that did not appear confidential for future planning, conduct amounted only to preparations to compete); Fitness Experience, Inc. v. TFC Fitness Equip., Inc., 355 F. Supp. 2d 877, 892–93 (N.D. Ohio 2004) (summary judgment for three departing employees who

Informing customers and co-workers that one is soon to leave the company, and that one will join a new or existing company, is also permitted. That said, the line between lawful announcement and unlawful solicitation is thin, and could potentially turn on the semantics of the words that an employee utilizes to express his or her plans.[40]

More generally, a departing fiduciary has the same right to make use of non-secret, publicly available information after departing that any other employee does. Said differently, being a fiduciary does not narrow the scope of non-secret information one may use after leaving a job. Although this may seem obvious under the general principles of trade secret law, that has not stopped some former employers from arguing otherwise.[41]

Ultimately, providing that the departing employee or fiduciary has stayed within these principles, there is no obligation to disclose one's plans to one's

planned to form a competing fitness business; plans were made off-site and not during working hours, save for two calls using business phones, and there was "little or no evidence" that defendants contacted employer's vendors or customers while still employed; noting rule allowing preparations to compete); Parsons Mobile Prod., Inc. at 432–33 (Kan. 1975) (affirming bench trial in favor of former director despite *de minimis* use of "an air compressor and saw" in the course of other, fully lawful preparatory activities).

40. For citations, see Appendix C.

41. *See* Numed, Inc. v. McNutt, 724 S.W.2d 432, 435 (Tex. Ct. App. 1987) (no breach where former officer used non-secret information learned while working for former employer); Public Relations Aids, Inc. v. Wagner, 324 N.Y.S.2d 920, 296 (N.Y. Ct. App. 1971) (former fiduciary free to use information that was "ingenious" but not secret); J.T. Healy & Son, Inc. v. James A. Murphy & Son, Inc., 260 N.E.2d 723, 732 (Mass. App. Ct. 1970) (fact that ex-employee was a director "did not make information, otherwise properly acquired, confidential."); Caddy-Imler Creations, Inc. v. Caddy, 299 F.2d 79, 83 (9th Cir. 1962) (no breach where former fiduciary created list of potential customers from public sources for employer, and then re-created it from same sources when working on his own afterwards).

employer.[42] Also, there is no general duty to inform on co-workers who are preparing to compete.[43]

C. Prohibited Preparatory Activities

Employees and fiduciaries making preparations to compete also face a list of activities that are prohibited. To some extent, these types of misconduct are independently unlawful, such as trade secret misappropriation. In contemporary cases, a state's version of the Uniform Trade Secrets Act may require that the former employer's claim be brought under trade secret law, and not as a common

42. *See* RBC Bearings, Inc. v. Caliber Aero, LLC, No. SA CV 12-1442 FMO (PLAx), 2013 U.S. Dist. LEXIS 198122, *14 (C.D. Cal. Apr. 3, 2013) (granting motion to dismiss where, among other things, plaintiff's fraud claim—premised upon the notion that departing employees were supposed to disclose their preparations —had no legal basis given the right to prepare to compete and failure of plaintiff's other allegations about alleged wrongdoing); Sunbelt Rentals, Inc. v. Head & Engquist Equip., LLC, 00-CVS-10358, 2002 NCBC LEXIS 2, *24 (N.C. Sup. Ct. July 10, 2012) (granting summary judgment in part to former employees; in addition to finding that no fiduciary duty existed, court noted rule permitting preparations to compete and found that departing employee's planning and meetings for next venture, and failure to disclose such plans, would not violate a fiduciary duty); B&K Mech., Inc. v. Wiese, No. 03–4149–RDR, 2007 WL 869631, *5–8 (D. Kan. March 22, 2007) (granting summary judgment in favor of defendant where preparations to compete were lawful; affirming that there is no duty to inform the employer about preparations to compete; citing RESTATEMENT OF AGENCY § 393 cmt. e; defendant already had side business which plaintiff was aware of; defendant discussed submitting a competing bid and met with company to whom bid would be submitted, but did not begin to compete while still employed); Venture Express, Inc. v. Zilly, 973 S.W.2d 602, 606 n.2 (Tenn. Ct. App. 1998) (no breach where officer filed corporate charter for his new company before resigning); Dwyer, Costello & Knox, PC v. Diak, 846 S.W.2d 742, 747 (Mo. Ct. App. 1993) (no breach for entering into a partnership agreement); Allied Supply Co. v. Brown, 585 So.2d 33, 35–36 (Ala. 1991) (employees were not required to disclose plans to resign, but finding triable issues of fact on allegations regarding possible solicitation); Fletcher, Barnhardt & White, Inc. v. Matthews, 397 S.E.2d 81, 84 (N.C. Ct. App. 1990) (no breach to take initial steps to form new company); Zemitzsch, Inc. v. Harrison, 712 S.W.2d 418, 422 (Mo. Ct. App. 1986) (no breach where new company incorporated before resignation); Maryland Metals, Inc. v. Metzner, 382 A.2d 564, 571 (Md. Ct. App. 1978) (no breach where officers formed their new company before resigning); Parsons Mobile Prods., Inc. v. Remmert, 531 P.2d 428, 432–33 (no breach for forming competing entity before end of relationship); Nat'l Rejectors, Inc. v. Trieman, 409 S.W.2d 1, 37 (Mo. 1966) (en banc) (in a case largely about trade secret allegations, finding that lower-level employees were not required to disclose their plans to form a competing business before resigning; "the imposition of such duty would, for all practical purposes, nullify the conceded right of employees to make plans during their employment to compete with their employers upon termination of the relationship."; remanding for additional findings as to some but not defendants on trade secret claims); Operations Research, Inc. v. Davidson & Tailbird, Inc., 217 A.2d 375, 383–86 (Md. Ct. App. 1966) (affirming bench trial in favor of former employees who had resigned and then hired co-workers; finding on disputed facts no solicitation of customers before resigning and no solicitation of employees, and finding their nondisclosure of plans to compete before resigning to be permissible).

43. *See* MetLife Bank, N.A. v. Evergreen Moneysource Mort. Co., 2:10-cv-00288-RLH-PAL, 2010 U.S. Dist. LEXIS 60296, *5–6 (D. Nev. July 17, 2010) (denying motion to dismiss claim for breach of fiduciary duty but noting rule allowing preparations to compete and noting that co-workers need not disclose someone else's preparations); White Cap Indus., Inc. v. Ruppert, 67 P.3d 318, 319 (Nev. 2003) (affirming summary judgment where employer sued employee for breach of the duty of loyalty for failing to inform employer that a manager whom he did not supervise was making preparations to compete; "since an employee does not breach his duty of loyalty by making preparations to compete, a fellow employee does not breach his duty of loyalty by failing to disclose his knowledge of this fact.").

law tort claim for breach of fiduciary duty or breach of the duty of loyalty.[44] In addition, some of these types of misconduct mirror the post-employment restrictions most states allow in employment contracts, such as prohibitions on soliciting co-workers.

It will come as no surprise that a departing employee who invites co-workers to come along with him or her to a new job is a major source of litigation. Employers dislike losing talent, and litigation (or threats of litigation) may be easier than raising salaries or taking steps to improve working conditions or office morale. At the same time, we must distinguish overt solicitation of co-workers from a plan to resign that organically develops among co-workers. We will address conflicting case law on this point below. In general, the Restatement (Second) of Agency recognizes that the law is unclear, but offers that it is "normally permissible for employees of a firm, or some of its partners, to agree among themselves, while still employed, that they will engage in competition with the firm at the end of the period specified in their employment contracts."[45]

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44. UTSA preemption of claims for breach of fiduciary duty can vex courts, as some such alleged breaches mimic trade secret claims by alleging a misuse of nonpublic business information, while other alleged breaches are distinct and predicated on different conduct altogether. Articles discussing such cases, and UTSA preemption more broadly, include Charles Tait Graves & Elizabeth Tippett, *UTSA Preemption and the Public Domain: How Courts Have Overlooked Patent Preemption of State Law Claims Alleging Employee Wrongdoing*, 65 RUTGERS L. REV. 59 (2013) and John Cross, *UTSA Displacement of Other State Law Claims*, 33 HAMLINE L. REV. 445 (2010). Cases where states' highest courts or appellate courts in precedential opinions have affirmed UTSA preemption include Robbins v. Supermarket Sales, LLC v. Supermarket Equip. Sales, LLC, 722 S.E.2d 55, 58 (Ga. 2012) (approving prior Georgia case law to hold that allowing injunctive relief for information that failed to qualify as a trade secret "undermined the exclusivity of the GTSA."); BlueEarth Biofuels, LLC v. Hawaiian Elec. Co., Inc., 235 P.3d 310 (Haw. 2010) (describing the current state of UTSA preemption law nationwide, and siding with other state supreme courts in favoring the majority approach of endorsing preemption); Mortg. Specialists, Inc. v. Davey, 904 A.2d 652, 665 (N.H. 2006) (affirming pre-trial order dismissing alternative claims, ruling that UTSA is intended as sole claim for trade secret misuse); RK Ent., LLC v. Pro-Comp Mgmt, Inc., 158 S.W.3d 685, 689–90 (Ark. 2004) (reversing trial court; finding broad preemption of alternative tort claim); Savor, Inc. v. FMR Corp., 812 A.2d 894, 898 (Del. 2002) (affirming preemption of unfair competition and conspiracy claims at the pleading stage); Dicks v. Jensen, 768 A.2d 1279, 1285 (Vt. 2001) (holding that UTSA preemption applies to common law claims even if the information does not meet the statutory definition of a trade secret); Frantz v. Johnson, 999 P.2d 351, 357–58 (Nev. 2000) (reversing trial court and holding in favor of broad preemption of various alternative tort claims); Weins v. Sporleder, 605 N.W.2d 488, 492 (S.D. 2000) (reversing trial court and holding in favor of broad preemption; explaining that it would render the UTSA "meaningless" if a plaintiff's trade secret claim is dismissed and "plaintiffs can simply pursue the same claim in the name of a tort."). Some states, however, have rendered the UTSA's preemption clause meaningless, without a thorough analysis. *See, e.g.*, Am. Biomedical Grp, Inc. v. Techtrol, Inc., 374 P.3d 820, 827–28 (Okla. 2016) (misreading statutory text and ignoring UTSA commentary for simplistic ruling that statute does not preempt purported torts over information said to be confidential but not secret —whatever that is supposed to encompass); Burbank Grease Serv., LLC v. Sokolowski, 717 N.W.2d 781 (Wis. 2006) (ruling, over passionate dissent, against preemption of alternative tort claims despite preemption clause in Wisconsin UTSA).

45. *See* RESTATEMENT (SECOND) OF AGENCY § 393 cmt. e. ("However, a court may find that it is a breach of duty for a number of the key officers or employees to agree to leave their employment simultaneously and without giving the employer an opportunity to hire and train replacements."). The language regarding the "end of the period specified" in an employment contract is outdated, as few contemporary contracts are term agreements, but the text can be read as referring to the point when

The Restatement of Employment Law similarly notes that "although employees can jointly agree to seek new employment or business opportunities, while employed the employee may not recruit other employees en masse to leave the employer to join a competing venture in a manner that would materially damage the employer."[46]

Cases where a former employer sues a departing employee for soliciting customers and/or co-workers before resigning are legion. In general, they do not end well for the former employee— though again, planning to leave with co-workers is not the same as recruiting non-participants.[47]

The same is true of cases where the departing employee misused the employer's trade secrets, or otherwise made material use of the employer's resources in planning to depart.[48] Some such cases would be brought today as claims for violation of the Uniform Trade Secret Act, rather than tort claims for breach of duty, as the UTSA generally preempts such older, common-law labels.[49] In any event, serious misconduct such as sabotage of the employer's business is also a fairly common feature of cases where the employer prevails over the departing employee.[50] And, in a somewhat unusual situation, a court found a breach of duty where an employee accepted payments (including a loan) from his future employer three months before resigning. The court found that the individual should not have continued to access the employer's confidential information where simultaneously accepting payments from a future employer showed a strong conflict of interest between the future employer and the current employer.[51] Where the departing employee violates these principles, some courts seem to also reject the general rules allowing preparations without disclosure.[52]

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employment terminates. The 2006 RESTATEMENT (THIRD) rewrote the commentary for preparations to compete, and did not comment on this point. *See* RESTATEMENT (THIRD) OF AGENCY § 8.04, cmt. c.

46. RESTATEMENT OF THE LAW, EMPLOYMENT LAW § 8.04, cmt. c (2015).

47. For citations, see Appendix D.

48. For citations, see Appendix E.

49. *See*, *e.g*., Solito v. Direct Capital Corp., No. 219-2017-CV-00411, 2018 N.H. Super. LEXIS 6, *11–17 (N.H. Sup. Ct. Apr. 11, 2018) (granting motion to dismiss claim for breach of the duty of loyalty where plaintiff alleged that one departing employee took screenshots and handwritten notes of customer information to evade detection, noting rule allowing preparations to compete, dismissing claim as to two defendants where plaintiff did not adequately allege a breach, and finding claim against primary defendant preempted by the UTSA such that plaintiff would have to amend to allege the same allegation under the trade secret statute).

50. For citations, see Appendix F.

51. *See* Alagold Corp. v. Freeman, 20 F. Supp. 2d 1305, 1311–12 (M.D. Ala. 1998) (denying summary judgment to defendant on fiduciary duty claim where officer left and joined a competitor, but took an advance payment and a loan from the new employer three months before leaving; court found triable issue of fact as to whether he exercised good faith in continuing access to employer's information).'

52. *See* Burton Ent., Inc. v. Wheeler, 643 F. Supp. 588, 592–93 (D. Kan. 1986) (in a decision perhaps against the grain of preparing-to-compete cases, court found that fiduciary acted wrongfully not just for soliciting a co-worker to join a new, competing company and for confusing customers that new company was a "mere structural change" to the former company, but also for setting up a facility for future competition, and not informing the employer; this case notably does not cite other such cases); Standard Brands, Inc. v. United States Partition & Packaging Corp., 199 F. Supp. 161, 171–73 (E.D. Wisc. 1961) (finding a long list of breaches of fiduciary duty including misuse of trade secrets, customer solicitation,

Finally, it should be noted that one state, Kentucky, appears to reject the Preparations to Compete Doctrine altogether, at least for fiduciaries.[53]

Notably, despite the protections of the preparations to compete doctrine, employers can fire employees when the employer learns that the employee is engaged in preparations to compete. The employee does not have a valid claim for unlawful termination in such circumstances.[54]

D. Preparations to Compete During the Pendency of a Non-Competition Covenant

Just as employees (including executives) may lawfully undertake a variety of steps to plan a new, competing venture before resigning, a similar line of cases protects those who prepare to compete during the pendency of a post-employment covenant not to compete.

Most states permit some form of non-competition covenants—contract terms that bar a departing employee from working for a competitor for a set period of time, even if the employee does not misuse trade secrets or otherwise engage in wrongdoing. Employers often file lawsuits to enforce non-competition agreements, and with a few exceptions such as California[55] (where such covenants are illegal under a state statute) employees who join a competitor during the time period covered by the restrictive covenant face the risk of a court-ordered job termination.[56]

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and having employees performing work for the new competitive entity being formed; also finding that nondisclosure was a breach; "[a fiduciary] may plan and develop his competitive enterprise during the course of his agency provided the particular activity engaged in is not against the best interest of his principal. Protection of the principal's interest requires a full disclosure of acts undertaken in preparation for entering into competition.").

53. *See, e.g.*, Steelvest, Inc. v. Scansteel Serv. Ctr., Inc., 807 S.W.2d 476, 483 (Ky. 1991) (holding fiduciary must resign before preparing to compete); Aero Drapery, Inc. v. Engdahl, 507 S.W.2d 166, 169 (Ky. Ct. App. 1974) (finding fiduciary liable for preparing to compete and for using non-secret information); *see also* Rutherford B. Campbell, Jr., *Corporate Fiduciary Duties in Kentucky*, 93 KY. L.J. 551, 592–93 (2004–05) (describing how these two cases require that a fiduciary resign when he or she first starts preparations to compete). Despite these cases, it is not clear that a court in Kentucky has fully considered the Preparations to Compete doctrine and rendered an in-depth decision, including as to ordinary employees subject only to the duty of loyalty.

54. *See, e.g.*, Stokes v. Dole Nut Co., 41 Cal. App. 4th 285, 295–96 (1995) (recognizing right to prepare to compete but rejecting employee's wrongful termination claim against employer which terminated employee upon learning of preparation to compete); Fowler v. Varian Assoc., Inc., 196 Cal. App. 3d 34, 42–43 (1987) (rejecting wrongful termination claim against employer which discovered employee's efforts, and employee refused to provide information about such efforts).

55. CAL. BUS. & PROF. CODE § 16600 (West 2019).

56. *See* BRIAN M. MALSBERGER, COVENANTS NOT TO COMPETE: A STATE-BY-STATE SURVEY (12th Ed. 2017) (describing state-by-state case law on employee non-competition covenants); *see also* Charles Tait Graves, *Analyzing the Non-Competition Covenant as a Category of Intellectual Property Law*, 3 HAST. SCI. & TECH. L.J. 69 (2011) (arguing that employee non-competition covenants should be abolished). Some of the abuses posed by employers' use of such covenants have resulted in mainstream coverage in recent years. *See*, *e.g*., Rachel Abrams, *'No Poach' Deals for Fast-Food Workers Face Scrutiny by States*, N.Y. TIMES (July 9, 2018) https://www.nytimes.com/2018/07/09/business/no-poach-fast-food-wages.html [https://perma.cc/2W6C-AJZM]; Jared Benet, *'Money and Greed': how non-compete clauses force workers to fight for rights*, THE GUARDIAN (Oct. 24, 2018)

Still, courts have recognized that former employees who are within the time period covered by a non-competition clause may engage in preparations to compete during that period, so long as they do not commence actual competition until the covenant has expired. As a 2017 case in New York explained the logic, "a former employee may prepare to compete during the term of a non-competition provision, because restraining such acts 'would have the effect of extending the term of the covenant.'"[57] In that case, a group of ex-employees subject to one-year non-competition covenants signed employment agreements with a competitor providing that each would take a "Sabbatical Year," and they prepared a spreadsheet planning the business efforts they would engage in after the restrictive covenants expired.[58] The court found their preparatory steps to be lawful and denied the former employer's motion for a preliminary injunction.[59]

In a similar 2003 decision in Pennsylvania, former employees subject to a non-competition clause prepared to aid competitors before the expiration of their covenants—but did not actually provide such aid.[60] The court declined to enjoin them, finding that they took "preparatory steps" by "incorporating [the company], issuing press releases, conducting market research, issuing a white paper, and conducting a webcast for potential customers," and thus engaged in "overt acts that have laid the groundwork to, at some time in the future, aid competitors[.]"[61] But at the same time, the parties had not "actually aided" the competitors before the expiration of the noncompete—the new company "ha[d] no customers, revenue, or even a product on the market."[62] The court thus held that "although it [was] a close question . . . mere preparations by Defendants to potentially aid competitors of [plaintiff] [did] not rise to the level of breach of their restrictive covenants."[63]

Over the years, a number of other cases have treated former employees who are subject to non-competition covenants very similarly to current employees who make preparations to compete.[64] There is, however, one important

https://www.theguardian.com/us-news/2018/oct/24/non-compete-clause-low-wage-workers-lawsuits-rights [https://perma.cc/U7PP-FBY6].

57. *See* In re Document Techs. Lit., 275 F. Supp. 3d 454, 464 (S.D.N.Y. 2017) (denying request for preliminary injunction where group of employees decided to explore joining a competitor, and signed contracts paying them to not work for one year during pendency of non-competition covenant; finding, among other things, that "engaging in several preparatory activities" during that period had not "crossed the line here."; also finding that non-solicit covenant was not violated simply because employees banded together to explore a potential job offer) (quoting Stork H&E Turbo Blading, Inc., v. Berry, No. 2011-0373, 32 Misc.3d 1208(A) *3 (N.Y. Sup. Ct. June, 30 2011)).

58. See *In re Document Tech. Lit*., 275 F. Supp. 3d at 459–60.

59. *See id*. at 464–68.

60. *See* Viad Corp. v. Cordial, 299 F. Supp. 2d 466, 479 (W.D. Pa. 2003).

61. *Id*.

62. *Id.* at 479.

63. *Id*. at 480.

64. *See* Stork H&E Turbo Blading, Inc. v. Berry, 932 N.Y.S.2d 763 (N.Y. Sup. Ct. 2011) (granting and denying in part former employer's request for preliminary injunction; finding that employee is permitted to prepare to compete during the pendency of a non-competition covenant; "[r]estraining defendants from preparing to compete . . . during the restricted period would have the effect of extending

distinction between former employees who are still within the term of a non-competition agreement and employees who have not yet resigned: the former are no longer subject to an invention assignment obligation to the former employer, and therefore can begin developing new intellectual property for the future competing business before the non-competition covenant expires.

IV. TWO AMBIGUITIES AND PROPOSALS FOR REFORM: PLANNING WITH FRIENDS AND RESTRICTIVE COVENANTS

A. Planning with Friends: Inconsistent Case Law

In many ways, the nationwide case law regarding preparations to compete is surprisingly uniform. We can list consistent "dos and don'ts" across jurisdictions, and thus employees making such preparations can act with some degree of certainty and predictability when engaging in preparatory activities.

One area where the law is not so clear, however, is the common situation where more than one employee joins a plan to form a competing new business. In some cases, such plans might arise simultaneously, as friends at work (or friends who work elsewhere) complain about working conditions, express

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the term of the covenant for another year . . . ."); Berardi's Fresh Roast, Inc v. PMD Ent., Inc., No. 90822, 2008 Ohio App. LEXIS 4618, *13–14 (Ohio Ct. App. Oct. 23, 2008) (unpublished) (affirming trial court's finding in favor of defendant who merely made preparations during pendency of non-compete, consisting of forming company, hiring employees for it, and ordering equipment and supplies "so that he could commence business the day after the noncompetition agreement expired."); Mercer Mgmt. Consulting, Inc. v. Wilde, 920 F. Supp. 219, 237 (D.D.C. 1996) (holding that a failed attempt to render services in violation of a noncompete did not result in liability where the defendant attended meetings with and submitted a proposal to a prohibited customer, but the proposal was rejected); Aviation Assoc., Ltd. v. Temsco Helicopters, Inc., 881 P.2d 1127, 1132 (Alaska 1994) (noting that preparations to compete are allowed, but finding defendant liable where his "preparatory steps matured into active competition" before his covenant expired); Wirum & Cash, Architects v. Cash, 837 P.2d 692, 709–10 (Alaska 1992) (finding no violation of noncompete where partner submitted a bid before expiration of noncompete but did not "perform services" as barred by the contract; by contrast, finding breach in a second case where he did perform services during the noncompete period); De Long Corp. v. Lucas, 278 F.2d 804, 806–10 (2nd Cir. 1960); (the defendant (a) thought up, designed, and submitted a patent application for a new, competitive invention; and (b) assisted an already-existing competitor for its fabrication, all during the noncompetition period, which resulted in the competitor then winning a bid using the new invention over the plaintiff's bid, though the bidding itself took place after the expiration date of the noncompete. The person was held to have breached the contract. The court split a very fine line, holding that preparation is permissible and that (apparently) filing the patent application was permissible, but his assisting of an active competitor to give that competitor a "head start" and win the bid is what appears to have tipped the balance in favor of liability) *aff'g* 176 F. Supp. 104 (S.D.N.Y. 1959); Cowley v. Anderson, 159 F.2d 1, 5 (10th Cir. 1947) (stating the rule as "[t]he mere planning, without more, by a party to a contract of this kind to engage in a competitive business of his own after the expiration or termination of the contract is not a breach of the good faith due the other party."; finding that the defendant was liable for undertaking actual sales of the product at issue during the noncompetition period). A 1995 case from New York which appears to have held that such preparations are not permissible seems inconsistent with the subsequent New York decisions cited above. *See* World Auto Parts, Inc. v. Labenski, 629 N.Y.S.2d 896, 940 (N.Y. 1995) ("defendant breached the non-compete provisions . . . by attending trade shows, distributing his business card and discussing with competitors his plans to re-enter the auto parts business when the non-compete provision expired.").

concerns about the employer's viability, or simply discuss hopes and dreams of founding a company.[65] In other cases, one or more employees might have the original idea, and others join along the way during organic conversations among friends. At the other extreme, friends with a plan to leave might make a list of co-workers to solicit—co-workers with no inkling of the plan as it developed, and perhaps even relative strangers. As noted above, commentary in some Restatements would protect the former, but none would protect the latter.[66]

The case law has not always been helpful in analyzing how these situations differ, or even in recognizing that sometimes plans to leave can be a joint idea from the start, and not solely the idea of one person. Indeed, some case law seemingly would prohibit co-workers from engaging in preparations to compete with one another altogether. These cases appear to be the product of poor analysis, because they do not consider the organic manner in which plans to leave can develop over time through conversations among co-workers.

A sample of cases shows the gamut of opinions courts have expressed when facing situations where more than one employee engaged in preparatory activities. In a 2016 Colorado case, a group of three out of thirty-five employees in a regional office planned to leave together and negotiated with the company that would hire them.[67] In denying summary judgment for the employees on the former employer's claim for breach of the duty of loyalty, the court noted that "their testimony differs as to who told whom first that they were thinking of leaving; as to who knew whom was interested in working for [new employer] and when; and as to how they all ended up meeting with [new employer]."[68] While the court noted that employees have a right to prepare to compete before leaving, it found a triable issue of fact as to whether the employees violated their duties by soliciting one another to join the new employer.[69] This case treats planning among friends as a potentially wrongful act and invites an interrogation of which of the three might have first expressed his or her ideas to the others.[70] It ignores the possibility that those ideas developed among co-participants.

Similarly, a 2004 Tennessee case appears to have found wrongdoing where two officers planned together to leave, in part because they each did not inform on each other.[71]

65. Indeed, one can envision scenarios where employees dissatisfied with workplace conditions engage in the types of concerted activity—such as discussions about salaries—that are sometimes protected by state and federal law, and result in coordinated plans to leave together. *See, e.g.*, CAL. LAB. CODE § 1197.5(k)(1) (West 2019) ("An employer shall not prohibit an employee from disclosing the employee's own wages, discussing the wages of others, [or] inquiring about another employee's wages . . . .")."""

66. *See supra* notes 45–47 and accompanying text.

67. Wells Fargo Ins. Servs. USA, Inc. v. McQuate, 276 F. Supp. 3d 1089, 1094–99 (D. Colo. 2016).

68. *See id.* at 1099.

69. *See id.* at 1114–15.

70. *See id.*

71. B&L Corp. v. Thomas & Thorngren, Inc., 162 S.W.3d 189, 205–08, 205 n.5 (Tenn. Ct. App. 2004) (a confusing ruling, affirming breach of fiduciary duty judgment against two officers for planning a "covert scheme to establish a competing business," apparently on logic that neither informed on the

By contrast, in 2005 the Tenth Circuit affirmed a finding that employees did not improperly solicit one another because they had a right to prepare for their careers after leaving the company together.[72] Specifically, several employees resigned together without prior notice and then started a competing business.[73] The employer quickly replaced them, and the evidence was that the departing employees were not motivated by ill-will.[74] The court affirmed because the employees "were protected by the legal privilege entitling them to make career preparations after departure from [the former employer]."[75]

A 2003 Texas case shows how some courts consider evidence of job dissatisfaction and allow friends and co-workers to plan to leave together where working conditions are poor. In *Abetter Trucking Company, Inc. v. Arizpe*, the defendant was an employee who, along with his brothers, planned and then left to form a competing trucking company. A large number of truck drivers also resigned and joined him.[76] Before resigning, the employee had obtained permits and insurance. He informed his employer he would be leaving with his brothers, but did not disclose that he knew that many drivers had expressed their intent to join him.[77] The evidence showed that the defendant was the only employee who spoke Spanish—the language the company's truckers mostly spoke—and he was the only one who attended social functions with them. The drivers who left testified to poor working conditions with respect to compensation and fees imposed upon them.[78]

The court affirmed the trial court's verdict in favor of the defendant, and explained that "[t]he employee had no general duty to disclose his plans and may secretly join with other employees in the endeavor without violating any duty to the employer."[79] It also found that fiduciary duties should be balanced with "society's legitimate interest in encouraging competition."[80] In perhaps the fulcrum point of its decision, the court ruled that "[f]or the right of employees to agree among themselves to compete with an employer to be meaningful, it must be exercisable without the necessity of revealing the plans to the employer."[81]

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other, and also that offer to purchase another business was "mere pretext, submitted for the purpose of facilitating their termination from plaintiff corporation.").

72. Prof'l Home Health Care, Inc. v. Complete Home Health Care, Inc., 159 Fed. Appx. 32, *34–35 (10th Cir. Dec. 19, 2005) (affirming judgment by bankruptcy court).

73. *See id*. at *33.

74. *See id*. at *35.

75. *See id*.

76. *See* Abetter Trucking Co., Inc. v. Arizpe, 113 S.W.3d 503, 507 (Tex. Ct. App. 2003) (affirming jury verdict).

77. *See id.* at 511.

78. *See id.* at 512.

79. *See id*. at 510.

80. *See id.* at 511.

81. *See id*. A similar Texas case also considered evidence of employee dissatisfaction. *See* Bray v. Squires, 702 S.W.2d 266, 270–71 (Tex. App. Ct. 1985) (affirming jury finding that employees did not breach fiduciary duty in making plan to leave and compete; evidence showed that employees were dissatisfied with working conditions, including a manager tearing up a note in front of an employee;

In general, many courts recognize that friends or co-workers may plan to leave together.[82] This is as it should be. Courts should distinguish situations like that seen in *Bancroft-Whitney*, where an executive worked with his intended future employer to make plans to engage in mass solicitation of the workforce, with plans for the future that organically develop from conversations among co-workers. To rule otherwise—to hold that employees violate their duties to the employer by discussing plans together—ignores that employees will always express concern about working conditions, about whether a company will succeed, and about whether leaving is a better decision. The idea to form a new company does not always arise in one person's mind alone; it may start from inchoate discussions among friends before taking form. Mass solicitation of non-participants, in other words, is worlds apart from joint planning.[83]

B. Can the Employer Prohibit Preparations to Compete by Contract?

Few would disagree that if an employer is permitted to place anticompetitive restrictions on its workforce though adhesion contracts, it generally will do so to the maximum boundaries the law allows, or beyond. This

employees did not solicit customers before leaving; noting rule allowing fiduciaries to prepare to compete''' Cases addressing employee dissatisfaction are uncommon, but a 2008 unpublished California case is another example. *See* Injen Tech. Co. v. Kim, No. B200686, 2008 WL 2736899, *2–6 (Cal. Ct. App. July 15, 2008) (unpublished) (affirming bench trial verdict in favor of defendants where individual left employer due to employer's purported tax fraud and other wrongdoing, originally planned to start a different business, only later helped form a new competitor which lawfully reverse engineered the plaintiff's product; although individual was accused of soliciting two co-workers, neither actually resigned; individual's conduct fell within lawful preparations to compete).

82. *See* Wells Fargo Ins. Servs. USA, Inc. v. McQuate, 276 F. Supp. 3d 1089, 1114–16 (D. Colo. 2016) (on defense motion for summary judgment, and as to claim for breach of the duty of loyalty where three bank employees resigned together to open a competing office, denying motion as to employer's contention that group of three solicited one another in resigning, among other things); Prof'l Home Health Care, Inc. v. Complete Home Health Care, Inc., 159 Fed. Appx. 32, 34–36 (10th Cir. Dec. 19, 2005) (affirming finding by bankruptcy court in favor of three employees who left; finding their plans to leave "privilege[d]" by rule permitting preparations to compete, finding that employees had no "ill-will" and did not resign "en masse" or engage in wrongful solicitation as they expected subordinates to take over their work); Omega Optical v. Chroma Tech. Corp., 800 A.2d 1064, 1068–70 (Vt. 2002) (affirming verdict for former employees who departed to form competitor but did not solicit customers before leaving; "courts have generally held that at-will employees may plan to compete with their employer even while still employed there and may freely compete with the employer once they are no longer employed there."); United Aircraft Corp. v. Boreen, 284 F. Supp. 428, 443–44, 448 (E.D. Pa. 1968) (although employees were found to have violated non-competition covenants, court found no breach of fiduciary duty for their preparatory acts of agreeing among themselves to "form a new company" and resigning together); *see also* PTSI, Inc. v. Haley, 71 A.3d 304, 306–07, 310 (Pa. Super. Ct. 2013) (affirming trial court's grant of summary judgment in favor of former employees; noting rule allowing preparations to compete; while still employed, employees had incorporated a competing business, located office space, and "informed" customers they were starting a new business, but there was no evidence that they solicited customers).

83. To be sure, there may be scenarios that fall between organic planning among friends and mass solicitation. One could envision a situation where co-workers invite a relative stranger to join plans to leave after that person has expressed dissatisfaction with workplace conditions, and that person then becomes part of the core founding group, indistinguishable from the others. The proposed binary approach— between organic planning and soliciting outsiders—is offered as a means to resolve the most common scenarios.

truism begs the question whether companies could eliminate the common law Preparations to Compete Doctrine by simply adding a restrictive covenant barring preparations for one's next job—akin to a post-employment non-compete clause—into a form employment agreement. The answer should be "no," based on the ordinary "legitimate interest" test most states use to adjudicate the enforceability of restrictive covenants.

At least one case suggests that a contract term barring preparations to compete is possible, albeit in the narrow circumstance where the employee was also bound by a valid post-employment non-competition covenant. Moreover, the case featured unusually bad conduct by a departing employee, perhaps skewing the result. In 2012, the Northern District of Illinois issued a preliminary injunction where a departing employee downloaded and copied a file containing the plaintiff's trade secrets, used that information for his new business, violated a non-compete clause and a customer non-solicitation clause, and destroyed evidence. The defendant then violated the court's injunction, and was found in contempt.[84]

In the midst of a lengthy recitation of the defendant's misconduct, the court noted that the employment contract banned him from engaging in preparations to compete: "Employee agrees that so long as Employee is working for Company, Employee will not undertake the planning or organizing of any business activity competitive with the work Employee performs."[85] The court found that that the defendant had violated this clause by viewing logos for his new company and setting up an email address before resigning. However, the court also noted that the "preliminary steps" doctrine did not apply because the defendant was also bound by a non-competition covenant.[86]

It seems unlikely that an employer would be able to enforce a contract barring preparations to compete if a court were to carefully frame and analyze the question. Restrictive covenants, in general, must support an employer's legitimate business interest, and in most jurisdictions that interest must outweigh harm to the departing employee.[87] Because the Preparations to Compete Doctrine

84. *See* Brown & Brown, Inc. v. Ali, 592 F. Supp. 2d 1009, 1016, 1029–35 (N.D. Ill. 2012) (finding facts so negative for the departing employee that the court noted that "his conduct justifies serious contempt sanctions and possible criminal prosecution for perjury").

85. *See id*. at 1048.

86. *See id.* ("Ali was subject to such a restrictive contractual provision here, and Brown has proven that he violated that provision.").

87. Some states (like California) ban non-compete clauses, while others (such as Florida and Massachusetts) have enacted statutes that make enforcement of such clauses easier or more difficult. See CAL. BUS. & PROF. CODE. § 16600 (the foundation for California's prohibition on employee non-competition covenants); FL. ST. § 542.335 (generally permitting employee non-competition covenants); MASS. AM. GL CH. 149 § 24L(b)(vii) & (c) (2018 enactment which permits employee non-competition covenants with significant restrictions, such as a requirement to pay the former employer during the period of restraint in most cases). But in general, the "legitimate business interest" analysis applies in most jurisdictions. For the standard reference outlining the controlling test in each state that permits restrictive covenants, *see generally* Brian M. Malsberger, COVENANTS NOT TO COMPETE: A STATE-BY-STATE SURVEY (12th ed. 2017).

already balances those interests and protects the employer from various forms of employee misconduct, draconian contractual restrictions on preparing for one's next job would be poor public policy, and unreasonable from a common sense perspective of how employees think about their options in the real world. They would not reflect a legitimate business interest of the employer.

V. THE CLASH BETWEEN THE CORPORATE OPPORTUNITY DOCTRINE AND THE PREPARATIONS TO COMPETE DOCTRINE

We now turn to a rule which requires that certain company fiduciaries disclose particular events to their employer—the Corporate Opportunity Doctrine. This rule serves important policy goals by deterring such fiduciaries from diverting business that should properly belong to the company away for personal gain, in a conflict of interest that harms investors and shareholders.[88] It is, in short, an anti-corruption doctrine.

A. Metes and Bounds of the Corporate Opportunity Doctrine

On the surface, the Corporate Opportunity Doctrine would seem to have little to do with officers or employers leaving to start their own companies. But, as we shall see, courts have sometimes stretched its boundaries to encompass mobility disputes. Conflating the Corporate Opportunity Doctrine with the Preparations to Compete Doctrine inappropriately blends together different concepts serving different ends, potentially threatening well-established employee mobility rights.

Although exact definitions of the Corporate Opportunity Doctrine vary somewhat from state to state, the general principle is that if a business opportunity is presented to an officer or director, the company is financially able to undertake the opportunity, and the opportunity is within the company's line of business or reasonable expectancy, then the person must disclose the opportunity to the company before he or she can take it for personal advantage.[89] The keystone of the doctrine is prior disclosure by the fiduciary to the company, so

88. Who "counts" as a fiduciary and who does not can be a fact-specific question that may vary from state to state, and from court to court. That question is not the subject of this article. But as the cases cited in this article demonstrate, fiduciary status is hardly limited to members of the board of directors or "C"-level executives. *See, e.g.*, NCMIC Fin. Corp. v. Artino, 638 F. Supp. 2d 1042, 1082–83 (S.D. Iowa 2009) (finding plaintiff's vice president and general manager was a fiduciary; court cited broad definition of fiduciary status as one who is in a position to give advice for the benefit of others within the scope of the relationship); *see also* GAB Bus. Serv., Inc. v. Lindsday & Newsom Claim Serv., Inc., 83 Cal. App. 4th 409, 420–21 (2000) ("We conclude an officer who participates in management of the corporation, exercising some discretionary authority, is a fiduciary of the corporation as a matter of law."), *overruled in part on other grounds by* Reeves v. Hanlon, 33 Cal. 4th 1140 (2004). In addition, not every "fiduciary" may qualify as someone with a duty to report corporate opportunities. In California, for example, the WITKEN treatise suggests that those with obligations in the nature of a "trustee" owe that duty. *See* 9 WITKEN, SUMMARY OF CAL. LAW (11TH) §§ 99–100.

89. *See* Yiannatsis v. Stephanis, 653 A.2d 275, 278 (Del. 1995) (quoting the classic Delaware case of Guth v. Loft, Inc., 5 A.2d 503, 511 (Del. 1939)).

that the company has the first option to undertake the opportunity, thereby preventing conflicts of interest between the entity and its leaders.[90]

In the ordinary case, the corporate opportunity doctrine prevents self-dealing by a fiduciary when a high-level officer or executive encounters a potential sale, purchase, or other potential business transaction on offer from a third party source. As a straightforward example, an officer in a family business might improperly purchase shares in the company in his individual capacity which were offered after a shareholder passed away, thereby diverting the opportunity to buy those shares from the business.[91] Or, to take an example where the fiduciary prevailed, a director might purchase an interest in a type of license for a separate company where the plaintiff did not have a business interest in that type of license, or even the financial ability to acquire it.[92]

Notably, classic definitions and commentaries regarding corporate opportunities do not conflate individual self-initiative in planning a new, future company with business opportunities which independently exist in the world outside the mind of the company fiduciary. Rather, the opportunity comes to the attention of the fiduciary in his or her dealings with the outside world. The foundational *Guth* case in Delaware, for example, outlines a scenario where "there is presented to a corporate officer or director a business opportunity. . . ."[93] A well-known 1974 Minnesota case refers to "a business opportunity" presented" to an officer where "personal acquisition" can be unlawful.[94] The 1994 American Law Institute effort to define the corporate opportunity doctrine refers to "the person offering the opportunity" and provides examples of scenarios such as purchasing an interest in an oil drilling site when working for an oil exploration entity.[95] Commentaries likewise envision the opportunity

90. *See, e.g.*, ERIC TALLEY & MIRA HASHMALL, THE CORPORATE OPPORTUNITY DOCTRINE 1–2 (2001) (well-written summary with a focus on elements of the claim and defenses to it), https://perma.cc/796Z-6W8V. Notably, companies can opt out of the corporate opportunity doctrine – a sort of pre-nuptial agreement between founding officers allowing them to pursue defined activities in their individual capacities after the company is formed. *See* DEL. CODE ANN. tit. 8 § 122(17) (West 2018) (a company can "[r]enounce . . . any interest or expectancy . . . in, or in being offered an opportunity to participate in, specified business opportunities. . . .").

91. *See, e.g.*, *Yiannatsis*, 653 A.2d at 277–78.

92. *See, e.g.*, Broz v. Cellular Info. Sys., Inc., 673 A.2d 148, 150, 155–156 (Del. 1996) (reversing judgment for plaintiff on corporate opportunity claim where director purchased a cellular telephone license for his company, but plaintiff did not have an interest in the license or the financial ability to acquire the opportunity).

93. *See Guth*, 5 A.2d at 511.

94. *See* Miller v. Miller, 222 N.W.2d 71, 81 (Minn. 1974) (articulating a different approach from *Guth*, and finding no liability for transactions involving business entities growing out of a closely-held family enterprise).

95. *See* AM. LAW INST., PRINCIPLES OF CORPORATE GOVERNANCE § 5.05(b), Cmt. c (1994) (also covering any opportunity "of which a director or senior executive becomes aware" through the "use of corporate information or property").

being presented, such that the fiduciary is the passive recipient, or target, of the opportunity and not its active creator.[96]Cases applying these rules are legion. [97]

96. *See* TALLEY & HASHMALL, *supra* note 90, at 3 ("The [doctrine] presupposes that a new business prospect has recently been presented to a corporate fiduciary. . . ."); Matthew R. Salzwedel, *A Contractual Theory of Corporate Opportunity and a Proposed Statute*, 23 PACE L. REV. 83, 84 (2002) (referring to fiduciaries "who learn of the opportunities through their employment"); Kenneth B. Davis, Jr., *Corporate Opportunity and Comparative Advantage*, 84 IOWA L. REV. 211, 211 (1999) (describing basic principles as centering on the type of opportunity that the company would have viewed as "worthwhile to pursue had the officer or director not intervened to divert it to herself"); *see also* Michael Begert, *The Corporate Opportunity Doctrine and Outside Business Interests*, 56 U. CHI. L. REV. 827 (1989) (overview of doctrine and discussion of hypothetical involving external opportunities encountered by corporate insiders).

97. A sampling of cases where the corporate opportunity doctrine is seen in its typical circumstances include Global Med. Sol., Ltd. v. Simon, No. CV 12-04686 MMM (JCx), 2013 WL 12065418, *17–22 (C.D. Cal. Sept. 24, 2013) (on dueling motions for summary judgment, denying defendant's motion and finding triable issues where plaintiff accused employee who served as COO and president of agreeing to work for a competitor that the plaintiff was then in negotiations to purchase, soliciting employees to leave with him for the competitor, disclosing a co-worker's "confidential salary information," concealing his negotiations, lying to his employer about where his co-worker was going to work, usurping a corporate opportunity as to a potential joint venture, and undermining morale with other employees); Looney v. M-Squared, Inc., 586 S.E.2d 44, 47–49 (Ga. Ct. App. 2003) (affirming directed verdict for defendant on corporate opportunity and fiduciary duty claims; odd fact pattern where defendant was seeking a deal with third party on behalf of employer, then left and formed his own company; the former employer did not further pursue the deal even though it would have been considered by the third party, and thus the defendant's new company was free to take it because the plaintiff did not avail itself of the claimed opportunity); Robinson, Leatham & Nelson, Inc. v. Nelson, 109 F.3d 1388, 1392–93 (9th Cir. 1997) (affirming verdict for former director of real estate investment banking company who had engaged in a series of complex transactions for entities in which he was involved; plaintiff did not have a reasonable expectancy in the restructuring transaction it completed, and thus defendant did not usurp a corporate opportunity); Ostrowski v. Avery, 703 A.2d 117, 119–120, 124–125 (Conn. 1997) (officers started competing company while still employed after obtaining the permission of a single majority shareholder "who [was] a member of the immediate family of one of them"; court reversed judgment for defendants on corporate opportunity claim because the extent of their disclosure was incomplete); United Components v. Dowiak, No. CV88-0274414-S, 1995 Conn. Super. LEXIS 2378, *6–7 (Conn. Super. Ct. Aug. 15, 1995) (judgment for defendant on breach of fiduciary duty claim where customer informed company that company had permanently lost account, and officer submitted offer of business to that customer before leaving the job; officer did not usurp corporate opportunity given that customer would no longer work with company at no fault of the officer); Rapistan Corp. v. Michaels, 511 N.W.2d 918, 921–26 (Mich. Ct. App. 1994) (on claim for usurpation of corporate opportunity against three former executives, affirming trial court judgment in favor of defendants; executives left employer, which manufactured for the warehouse distribution market and purchased a company which made packaging for a different sector of the market; finding that opportunity was presented to executives in their individual capacity, that it was not closely enough related to the employer's business to qualify as an opportunity, and that minimal use of company time to work on opportunity did not amount to a breach of duty); Klinicki v. Lundgren, 695 P.2d 906, 920–21 (Ore. 1985) (affirming trial court verdict for plaintiff where corporate director of air transport business formed another corporation and diverted a contract for charter flights to it); Science Accessories Corp. v. Summagraphics Corp., 425 A.2d 957, 963–66 (Del. 1980) (in leading case, employees learned of a third party's invention for a competitive product and worked with him to make preparations to form a competing business with him while still employed; the court ruled in favor of the employees, noting the three part test for usurpation of corporate opportunity "if a business opportunity is presented to a corporate executive, the officer cannot seize the opportunity for himself if: (a) the corporation is financially able to undertake it; (b) it is within the corporation's line of business; (c) the corporation is interested in the opportunity"; here, the third party's invention was not an opportunity available to the company because the inventor was not interested in working with the company (and the employees were not co-inventors because they merely reduced the invention to a "working model"), and the company was not in financial position to take advantage of the opportunity; therefore, the employees were not liable for failing to disclose their preparations to compete); Rankin v. Frebank Co., 47 Cal. App.

B. Courts Have Conflated Preparing to Compete and Corporate Opportunity

Despite the seeming bright-line distinction in typical cases between a person's subjective plans to prepare a future, competing business and a business opportunity offered by a third party that would exist whether or not a fiduciary learned of it, courts too often have commingled these doctrines. Sometimes the doctrinal confusion is harmless, as courts reach the same result regardless of the test used. But sometimes prejudicial confusion results. To be sure, some cases may pose hybrid scenarios, with elements of both passive receipt of an external opportunity and active planning of a future new company. But for the most part, judicial confusion stems from simply applying the Corporate Opportunity Doctrine to a fact pattern without considering whether the Preparations to Compete Doctrine would better fit.

For example, a 2016 case in New York applied the Corporate Opportunity Doctrine instead of the Preparations to Compete Doctrine, possibly leading to an incorrect result. In that case, an employee planned a competing venture and, in particular, worked with two people who did not work for the plaintiff and who began developing competing pharmaceutical products.[98] Although the employee was not an officer and appears to have planned a new venture with others rather than diverting an external, pre-existing opportunity presented to the company and available to the company, the court did not consider a distinction between the employee's competitive planning to form a new company and outside, independently-existing opportunities in its analysis. It denied a defense motion for summary judgment without mentioning the Preparations to Compete Doctrine, ruling that there was a triable issue of fact as to whether the employee's work with his co-founders was an opportunity that should have been offered to

3d 75, 88 (1975) (no usurpation of corporate opportunity where company could not have availed itself of purported opportunity to purchase note where there was no evidence that third party would have been willing to sell it at discount to company; as a result, officer "had every right" to buy the note himself); Paulman v. Kritzer, 219 N.E.2d 541, 546–47 (Ill. App. Ct. 1966) (affirming trial court judgment in favor of employer where officer purchased property for himself that was properly a corporate opportunity of the company); Equity Corp. v. Milton, 221 A.2d 494, 499 (Del. 1966) (affirming summary judgment to defendant who was CEO and board chairman where he had his wholly-owned subsidiary purchase company stock he had put on sale; court found no corporate opportunity because the officer had only reacquired property over which he had formerly exercised indirect control; "In a sense, he was a stockholder dealing with himself – a situation entirely inconsistent with the usual concept of corporate business opportunity."); Int'l Bankers Life Ins. Co. v. Holloway, 368 S.W.2d 567, 577-78 (Tex. 1963) (affirming jury verdict where officers had a duty to obtain real estate for the company but instead diverted profits from it by using the "instrumentality" of a separate company they formed)."

98. *See* Nostrum Pharm., LLC. v. Dixit, No. 13-cv-8718 (CM), 2016 U.S. Dist. LEXIS 133844, at *17–18 (S.D.N.Y. 2016) (also finding that defendant breached a six-month non-compete agreement even though the employee's new venture did not enter the market during that period, finding a triable issue of fact as to whether the employee breached a separate non-competition covenant, and finding in confusing language that the employee may have owed an invention assignment to the employer for something he seemingly did not personally invent; the decision may have been colored by the defendant's less-than-honest testimony about his activities and for retaining a large number of emails from his employer after leaving).''

the company.[99] Focusing on the difference between preparatory activities of one's own and an external, independent opportunity might have altered this result.

Other cases reach results that appear correct but meander through confusing analyses instead of focusing on the precise question at hand. In a 1999 Texas case, the defendant had been an officer and director of a small software company which offered "an interactive computer system for the management and scheduling of tee times for golf courses."[100] While still a fiduciary, he launched a second company, which offered an interactive software tool to help customers "determine the needs" of a lawn—and hired a separate developer to build the tool.[101] After he left, the company sued for breach of fiduciary duty and asserted that the lawn-based software was its corporate opportunity.[102] The court affirmed a trial court verdict for the defendant, using the traditional test for a corporate opportunity: whether the plaintiff had a legitimate interest or expectancy in, and the financial resources to take advantage of, the alleged opportunity.[103] If the court had applied the preparations to compete doctrine, the same result could have been reached, but more easily and with greater illumination of the issues really in play. For example, the court could have illustrated the right even of a fiduciary to plan a separate business, and it could have parsed the difference between violating an invention assignment by creating intellectual property that relates to the employer's business and, as here, hiring a third party to develop unrelated IP. The holding would have been the same, but the analysis would better have illustrated the mobility issues latent in its discussion.

Similarly, a 2005 case in California found that an executive violated his invention assignment agreement by launching a side business on a social media website, and also violated the corporate opportunity doctrine through the same conduct.[104] The analysis in the case therefore implicitly treated those areas of law as equivalents, and did not distinguish between external opportunities and an employee's own ideas to launch a new venture. In *Iconix v. Tokuda*, a company which offered email security tools sued a former officer and employee who had launched a photo slideshow product on a then-popular social media website.[105] Although the two sound like different endeavors, the employer —with the defendants' assistance—had considered the same ideas as part of an advertising strategy on social media.[106] The defendants secretly launched their side product

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99. *See id.* at *60 ("There is some evidence, then, that [defendant] usurped a 'corporate opportunity.'").

100. Icom Sys., Inc. v. Davies, 990 S.W.2d 408, 409 (Tex. App. 1999).

101. *Id.*

102. *Id*.

103. *See id*. at 410.

104. *See* Iconix, Inc. v. Tokuda, 457 F. Supp. 2d 969, 987, 992 (N.D. Cal. 2006) (issuing preliminary injunction).

105. *Id*. at 973.

106. *See id*. at 974.

while still employed, after using company time and computers to develop and plan it.[107]

When issuing a preliminary injunction, the court found it likely that the employer would prove that the defendants violated their invention assignment agreements in developing and operating a side business which related to the company's advertising strategy.[108] At the same time, the plaintiff also persuaded the court that the former officer had violated his fiduciary duty by usurping a corporate opportunity—his own side project.[109] The court did not consider the difference between an external opportunity and the officer's own ideas, and the defendants too appear to have accepted the corporate opportunity framework by arguing only that the side project was not an opportunity because it was not within the employer's line of business.[110] Although the overall result appears sound under these facts, the Corporate Opportunity Doctrine appears entirely out of place. The case was about in-term competition and invention assignment, and not an opportunity originating from a third party. Had the facts differed, and if the defendants had prepared an idea that did not belong to the company as its intellectual property, an inappropriate corporate opportunity analysis might have led to a negative outcome where the Preparations to Compete Doctrine instead would have protected the employees.[111]

A similar California case, *AngioScore, Inc. v. TriReme Medical*, applied the Corporate Opportunity Doctrine to assess whether a board member who was a fiduciary, but who did not have a written invention assignment, agreement owed any duties to the company regarding a medical device he had invented and was developing and testing for a new company.[112] The court ruled that the board member owed the company a right of first opportunity because the invention was within the company's scope of business.[113] But instead of analyzing the intellectual property ownership question as one simply of obligations a fiduciary owes his or her companies for inventions, the court engaged in a lengthy, cumbersome analysis of the Corporate Opportunity Doctrine, and did not

107. *Id*.

108. *See id*. at 988–993.

109. *See id*. at 982–987.

110. *See id*. at 986. ("[T]hey argue that [officer] had no duty to disclose [side project] to Plaintiff because Plaintiff was in the business of 'branded email,' and anything not directly tied to achieving email downloads was outside the scope of [Plaintiff's] business.").

111. At least one other case has examined a fact pattern as a corporate opportunity case that could instead have been analyzed under the rules for intellectual property assignments. This court too reached the right result, but by applying a questionable approach. *See* Robinson v. R&R Pub. Inc., 943 F. Supp. 18, 19–22 (D.D.C. 1996) (judgment for plaintiff on corporate opportunity theory where fiduciary of company formed to write and distribute a medical text wrote such a book and registered a copyright in her own name; case perhaps should have been adjudicated as an intellectual property assignment case rather than a corporate opportunity case).

112. *See* AngioScore, Inc. v. TriReme Med., Inc., No. 12-cv-03393-YGR, 2015 U.S. Dist. LEXIS 86041 (N.D. Cal. July 1, 2015)

113. *See id.* at *7.

consider or discuss a distinction between external opportunities and the board member's own creative efforts.[114] That detour seems unnecessary to the result.

Tokuda and *Angioscore* are best read as cases where fiduciaries exceeded the rights provided to them by the Preparations to Compete Doctrine by creating intellectual property within the scope of their companies' respective businesses, thereby violating their duties to assign or offer that IP to the company. Applying the vocabulary of the Corporate Opportunity Doctrine is both unnecessary and distracting from the fulcrum point of the dispute. A clearer presentation by each respective court would have outlined the Preparations to Compete Doctrine, explained what was permitted and not permitted, and identified the conduct that crossed the line.

In some contrast, a 1995 Louisiana case shows how courts can parse external opportunities from a fiduciary's own idea for future competition and thereby properly separate distinct legal problems.[115] The president of a company which sold a device designed to count pills and drop them into vials was tasked with exploring the acquisition of an existing product in that field.[116] Around the same time, he "began considering the idea of going out on his own and developing" another pill counter. He then did so, exploring patent rights and allegedly reverse engineering the third party device and launching his own version.[117] The court sided with him on summary judgment, finding that he did not usurp a corporate opportunity by starting his own company and launching his own device, because, in part, the opportunity associated with the third party product "still exists" as neither side had further pursued it.[118] Although the ruling was not highly analytical, it is a good illustration of how focusing on a fiduciary's use of public (non-secret) information to pursue his own ideas without creating intellectual property that could trigger an invention assignment obligation leads to the correct result—and renders the Corporate Opportunity Doctrine unnecessary to resolve such disputes.[119]

An important Delaware decision shows that both doctrines can be separated and addressed. In *Science Accessories Corporation v. American Research & Development*, a company which offered a "digitizer" product sued three former employees and shareholders who had planned their departures, and then launched a new company selling a digitizer developed by a fourth individual who

114. *See id* at *38–63 (N.D. Cal. July 1, 2015) ("[T]he court finds that although AngioScore was owned fiduciary duties by [board member], those duties did not entitle AngioScore to outright ownership of the [invention] opportunity at any point in time. Rather, what [board member]'s fiduciary duty demanded was that he offer AngioScore the *opportunity to acquire* the rights to the [invention.]") (emphasis in original)"".

115. *See* Autocount, Inc. v. Automated Prescription Sys., Inc., 651 So.2d 308, 310–12 (La. Ct. App. 1995) (the former officer filed suit seeking declaratory relief, and thus was the plaintiff. The President "had no written employment agreement[.]").

116. *See id*. at 310.

117. *See id*.

118. *See id*. at 311–12.

119. *See id.*

did not work for the plaintiff.[120] The court found that the employees had not breached their invention assignment agreements because the fourth individual, and not any of them, had invented the competing device.[121] The court also found that the former employees did not breach their fiduciary duties by making arrangements to leave and not disclosing their plans, because the digitizer device they planned to market was not a corporate opportunity.[122] Specifically, the inventor would not have been willing to offer his digitizer invention to the company to begin with, and in any event the company was not in a financial position to develop new products.[123]

Some cases even more closely straddle the line between external opportunities and one's own ideas, and thus a bright line distinction between the Corporate Opportunity Doctrine and the Preparations to Compete Doctrine may not always be obvious. For example, in a 1994 Michigan case, three executives learned that a different company was for sale; it sold both products similar to those offered by their company and an altogether different product for a different market.[124] They purchased the company and resigned.[125] The Michigan court applied the traditional corporate opportunity test, which asked whether an opportunity is presented to an officer or director which the company is financially able to undertake, is within the company's line of business, and is one in which the company has an interest or reasonable expectancy.[126] The Court found that the departing officers had a right to prepare to compete, and that their purchase of the other company did not usurp a corporate opportunity because the opportunity had not arisen in their work for the company, and that even though the other company had a related business, its acquisition was not essential to the plaintiff.[127] This was the right result, and probably the right analysis, though the case might fruitfully have been decided through a more rigorous exploration of the Preparations to Compete Doctrine.

These are not isolated decisions. Many other cases have mixed the language of corporate opportunity and preparations to compete, or analyzed a preparing-to-compete fact pattern under the rubric of corporate opportunity.[128]

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120. No. 4324, 1979 Del. Ch. LEXIS 477, *1–6 (Del. Ch. Oct. 10, 1979) (post-trial ruling), *aff'd sub nom.*, Science Accessories Corp. v. Summagraphics Corp, 425 A.2d 957, 960–67 (Del. 1980) (adopting same reasoning; noting rule allowing preparations to compete). The facts here are drawn from both rulings.

121. *See Summagraphics*, 425 A.2d at 966.

122. *See id.* at 964–66.

123. *See id*. at 964.

124. *See* Rapistan Corp. v. Michaels, 511 N.W.2d 918, 921–22 (Mich. Ct. App. 1994).

125. *See id.*

126. *See id*. at 922–23.

127. *See id*. at 922–25.

128. *See* Kuryakyn Holdings, LLC v. Ciro, LLC, 242 F. Supp. 3d 789, 800–802 (W.D. Wisc. 2017) (a rare case to consider corporate opportunity and preparations to compete together, noting general rule on preparations to compete; where defendant sought summary judgment as to four different alleged breaches of fiduciary duty, granting motion as to claims about confidential information where none was misused and corporate opportunity where company was made aware of opportunity for product idea, but

C. *Applying the Correct Analysis*

Perhaps only one case, a 2010 ruling from Arizona, has fully analyzed the distinction between a corporate opportunity offered by a third party that exists independent of the defendant's own efforts, and the defendant's planning for his or her next venture. Its clarity and insight are worth reviewing in detail. It involved a company which makes stun gun products for law enforcement. In *Taser International, Inc. v. Ward*, the plaintiff sued its former vice president after he spent several months planning a new product for his new company, which he launched soon after leaving.[129] Specifically, he "began exploring" whether he could develop a type of wearable camera, and sought legal advice to determine what ideas had already been patented by others. He then communicated with a third party developer about creating a clip-on camera.[130] By the time he resigned, the defendant had "completed substantial work on a business plan to develop, market, and sell a clip-on camera device.[131]

The plaintiff then sued on a number of theories including breach of fiduciary duty, and alleged that the defendant usurped a corporate opportunity regarding his clip-on camera idea because the company had explored personal audio and video recording products.[132] The court noted the general rule in favor of preparations to compete, and granted the defendant's summary judgment motion as to the fiduciary duty claim.[133] In reaching that conclusion, the court drew a reasoned distinction between opportunities one encounters that exist outside the employee's own ideas, and the employee's planning for his or her next company:

> Taser presented no evidence that Ward divested it of any concrete opportunity that Ward learned of while a Taser employee. Had Ward learned of a potential partnership with a sunglasses manufacturer, for example, to

finding fact issues on claims about causing a mass resignation of co-workers and having co-workers perform work for new, competing business "during business hours"); Thomas Petroleum, LLC v. Lloyd, No. 1:11-CV-00902-LJO-JLT, 2012 U.S. Dist. LEXIS 142729, at *19–27 (E.D. Cal. Oct. 2, 2012) (case involved both preparations to compete and corporate opportunity issues, albeit without deep discussion; where former employer accused employee of diverting customers to new entity while still employed, court denied employer's motion for summary judgment, finding triable fact issues as to whether employer was "willing to entertain" business from the customers; noting that "[a]n employee may set up a competing organization without breaching the duty of loyalty"); Creative Risk Controls, Inc. v. Brechtel, 847 So.2d 20, 24–26 (La. Ct. App. 2003) (judgment in favor of former employees on usurpation of corporate opportunities and fiduciary duty claims where they took no trade secrets and did not solicit customers; noting rule permitting preparations to compete); Am. Fed. Group v. Rothenberg, 136 F.3d 897, 905–06 (2nd Cir. 1997) (affirming judgment for plaintiff on breach of fiduciary duty claim; rare case to describe rules for preparations to compete and corporate opportunity side-by-side; director not just merely incorporating a obtaining a license for a new business while still employed, but soliciting insurance relationships to stay with him and using confidential "production reports and client expiration lists").

129. Taser Int'l, Inc. v. Ward, 231 P.3d 921, 924 (Ariz. Ct. App. 2010)'.

130. *See id.* at 924.

131. *See id.*

132. *See id*. at 924, 930.

133. *See id*. at 926–27, 930–31. At the same time the court rejected the corporate opportunity claim, though it nevertheless found a triable issue of fact on the former employer's claim that the defendant had used confidential information and engaged in active competition while still employed. *See id.* at 929–31.'

> develop an eyeglass-mounted camera, or learned of a specific prospective client's interest in purchasing a clip-on camera, and taken those opportunities for himself without proper disclosure, the corporate opportunity doctrine would be implicated. Taser, however, argued only that Ward usurped its opportunity in a second-generation personal video and audio recording product without any explanation of what precise opportunity Ward usurped. If the corporate opportunity doctrine is extended to all possible business ideas discussed or learned about in the course of employment, even ideas present in the public domain, such extension would have the effect of unnecessarily restraining competition by precluding former employees from ever developing competing products based on ideas that may once have been briefly discussed or abstractly contemplated by a former employer, or even products in the same line of business. . . . For at-will employees, this would effectively transform their employment relationship to one bound by a de facto non-compete agreement."[134]

This percipient ruling not only clearly delineates the difference between a person's own ideas for a new company and a business opportunity offered by a third party—it also emphasizes that a departing employee can explore the public domain for new ideas. The *Taser* ruling on the plaintiff's corporate opportunity claim is a model for how courts can carefully distinguish the Preparations to Compete Doctrine and the Corporate Opportunity Doctrine—thereby reserving to each the public policy goals each serves. Indeed, the court's recognition that there is a meaningful difference between a "concrete opportunity" that comes to the company pre-packaged and ready to exploit, versus the employee's exploration of public information for inchoate product ideas, is exactly the point of departure between the Preparations to Compete Doctrine and the Corporate Opportunity Doctrine found in the typical cases. Where the idea or plan would not exist but-for the employee's own idea (or his or her shared idea with other co-planners), it is not a corporate opportunity that would exist even if the employee had already resigned long ago.

To be sure, not every fact pattern will lend itself to this straightforward binary. One can imagine scenarios where an officer's receipt of a true corporate opportunity then veers into personal planning and steps to form a new venture that resemble preparations to compete. Some of the cases discussed above illustrate that middle ground. Nonetheless, the vast majority of reported cases lend themselves to the binary approach proposed here.

With these insights, and having reviewed the nationwide case law, we now can revisit the framework proposed in the Introduction. This is a flowchart courts can apply when faced with questions over pre-departure preparations, pre-departure creation of intellectual property that may belong to the employer through an invention assignment agreement, and a potential corporate opportunity that a higher-ranking fiduciary may have been required to present to the company.

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134. *id*. at 931.

First, courts should analyze whether an employee's plan to form a new company, alone or with others, was a self-generated concept, and not something presented to the employee in his or her capacity as a company representative from the outside:

(1) The Preparations to Compete Doctrine should apply, and thus the employee may conceal his or her future plans from the employer, when

   a. The employee has an idea to start a new, competing venture;
   b. The idea was the employee's own, or was developed with co-workers or friends who had no intention of presenting a business opportunity to the employer;
   c. The idea, in and of itself, is not intellectual property that would belong to the employer under the employee's intellectual property assignment obligations owed to the employer; and
   d. Planning with co-workers or friends that develops organically and does not rise to sabotage or other misconduct forbidden by the Preparations to Compete Doctrine should be permissible.

Second, if the employee creates intellectual property while still employed, but during the course of planning a new venture, an entirely distinct IP assignment analysis may be required:

(1) If a fiduciary or ordinary employee creates intellectual property that falls within the scope of his or her contract-based or fiduciary-based intellectual property assignment duties to the employer, such questions should be adjudicated under intellectual property assignment law. The Preparations to Compete Doctrine does not protect such conduct, and the Corporate Opportunity Doctrine plays no role in such questions.

Finally, courts should consider the Corporate Opportunity Doctrine, as to qualifying fiduciaries, only where the concept or business possibility was external to the company and did not spring from the officer or director's own mind:

(1) The Corporate Opportunity Doctrine should apply, and thus an employee who qualifies as a higher-ranking fiduciary is obliged to disclose an opportunity to the employer, when

   a. A third party business opportunity for the company exists independently of an employee's initiative, outside the corporation;
   b. The opportunity is thus not the product of the employee/officer's mind—it is not merely the employee/officer's own idea, or an idea generated with co-workers or friends, to launch a competing venture; and
   c. The elements of the Corporate Opportunity Doctrine as it is applied in a given jurisdiction require disclosure to the company before the fiduciary can take advantage of the opportunity in his or her individual capacity.

d. In hybrid cases where there are elements of both a corporate opportunity and preparations to form a new business, traditional limits on the Corporate Opportunity Doctrine—such as whether the opportunity would have been available to the company and whether it was within the company's expectancy or line of business —may assist courts in deciding which doctrine should control.

Again, there will doubtless be outlier fact patterns that do not fit the flowchart—where, for example, something that began as a clear corporate opportunity morphed into an officer's plan to depart and form a new venture. Or, where the lines between organic planning among friends and solicitation of outsiders to the plan are blurry, because such an outsider becomes an integral member of the core founding team. But even with the understanding that no test can capture every possibility, this proposal would substantially reduce the confusion courts can face when adjudicating mobility disputes.

VI. CONCLUSION

A creature of common law, the Preparations to Compete Doctrine serves the public good by ensuring that employees have space—within defined limits—to plan a new, competitive venture without informing the employer. Scores of cases over many decades demonstrate a largely uniform set of rules, but also two areas of occasional ambiguity and inconsistency.

The flowchart set forth in this article provides a map to guide courts through the intersections of preparations to compete which do not require disclosure, employee invention assignment obligations, and corporate opportunities which require disclosure. In particular, where courts have split over whether co-workers who plan together cross the line, the better outcome is that friends whose plans arise organically, together, should receive the full protections of the Preparations to Compete Doctrine. And, courts should avoid conflating those principles with the Corporate Opportunity Doctrine, in order to avoid encroaching on the rights granted to departing employees by the former.

VII. APPENDIX

A. Footnote 29: Permitted Preparatory Step of Incorporation

Gardening Catering-Hamilton Ave., LLC v. Wally's Chicken Coop, LLC, 30 F. Supp. 3d 117, 138-39 (D. Conn. 2014) (granting and denying defense motion for summary judgment; noting rule regarding preparations to compete, finding that signing a lease for a future business and incorporating the new business before departing was permissible, but that a jury would have to hear claims of breach regarding alleged misuse of trade secrets and co-worker solicitation); PTSI, Inc. v. Haley, 71 A.3d at 306–07, 310–11 (Pa. Super. Ct. 2013) (affirming trial court's grant of summary judgment in favor of former employees; noting rule allowing preparations to compete; while still employed, employees had incorporated a competing business, located office space, and "informed" customers they were starting a new business, but there was no evidence that they solicited customers; "The case law, however, is clear that an employee may make preparations to compete and schedule appointments for a new business prior to termination of employment."); Advanced Arm Dynamics of New Eng., LLC v. Comprehensive Prosthetic Serv., LLC, No. CV065004605S, 2011 Conn. Super. LEXIS 444, *32–60 (Feb. 23, 2011) (unpublished) (in mixed ruling, court found that some conduct had been permissible: incorporating a new company, having an attorney obtain a business license, seeking office space, and ordering equipment); Fairfield County Bariatrics & Surg. Assoc., PC v. Ehrlich, No. FBTCV1050291046, 2010 WL 1375397, *17–18 (Conn. Super. Ct. unpublished Mar. 8, 2010) (former employer granted preliminary injunction to enforce non-competition covenant against departing physician, but court found plaintiff unlikely to succeed on breach of fiduciary duty claim where his pre-departure activities of exploring setting up a personal blog, asking a hospital about the procedure for billing as a "private provider," and forming his own limited liability company "[did] not constitute a failure to serve [plaintiff] faithfully"); Mamou v. Trendwest Resorts, Inc., 165 Cal. App. 4th 686, 715–24 (Cal. Ct. App. 2008) (in reversing grant of summary judgment against employee in workplace discrimination case, rejecting employer's arguments that employee's efforts to "set up a corporate entity" for a potential new business constituted a valid ground for his termination; noting that preparations to compete are lawful, including submitting paperwork to form a new corporation); Instrument Repair Serv. v. Gunby, 518 S.E.2d 161, 163 (Ga. Ct. App. 1999) (no breach where fiduciary incorporated new competitive business before leaving, but did not solicit customers until after he left; noting right to make preparations to compete); Walter Karl, Inc. v. Wood, 137 A.D.2d 22, 28 (N.Y. App. Div. 1988) (denying request for preliminary injunction where employee had incorporated new company before leaving; "as long as a defendant does not use the plaintiff employer's time, facilities or proprietary secrets to build a competing business, there is no attendant illegality in the secret incorporation by the defendant of a new business prior to his or her departure from the plaintiff's employment"); Parsons Mobile Prod., Inc. v. Remmert, 531 P.2d 428, 432–33 (Kan. 1975) (affirming bench trial in favor of former director of failing company that was planning a potential move to a different state who incorporated a new company, but did not hire employees or misuse the company's property other than minor use of tools; recognizing right of fiduciaries to make preparations to compete).

B. Footnote 32: Permitted Preparatory Step of Infrastructure-Building

D'Onofrio v. Vacation Publ'ns., Inc., 888 F.3d 197, 216–17 (5th Cir. 2018) (reversing summary judgment in favor of employer for breach of fiduciary duty where employee engaged in lawful preparations to compete by using a non-confidential screenshot of her sales activities to get a new job and attending training with the next employer where she did not engage with customers before leaving, and a jury could find that she did not use confidential sales information); Youngevity Int'l v. Smith, No. 16-CV-704-BTM-JLB, 2018 U.S. Dist. LEXIS 168285, at *12–15 (S.D. Cal. Sept. 28, 2018) (granting summary judgment as to four former employees who had engaged in "setting up new offices, creating a marketing and website plan, and discussing potential products and vendors"); Leslie's Poolmart, Inc. v. Blue Wave Pool Supply of Memphis, LLC, No. W2017-01894-COA-R3-CV, 2018 Tenn. App. LEXIS 448, at *29, *38 (Tenn. Ct. App. Aug. 6, 2018) (affirming judgment in favor of departing employee who engaged in the preparatory steps of finding a location for his next business, locating a distributor, and ordering inventory); Fogartie v. Edrington, 17 CVS 12698, 2017 NCBC LEXIS 106, at *8, *16 (N.C. Sup. Ct. Nov. 17, 2017)(unpublished) (denying preliminary injunction where departing surgeons merely prepared to compete by interviewing candidates for future employment, contacting and providing non-secret information to a university regarding future business activities); W. Air Charter, Inc. v. Schembari, No. CV 17-00420-AB (KSx), 2017 U.S. Dist. LEXIS 224267, at *14–15 (C.D. Cal. Oct. 6, 2017) (granting motion to dismiss claim for breach of the duty of loyalty; allegations that employee had registered a domain name, organized a holding company, and notarized the articles of organization for a future LLC were lawful preparations to compete, and any claims alleging misuse of confidential information were CUTSA-preempted); Gardening Catering-Hamilton Ave., LLC v. Wally's Chicken Coop, LLC, 30 F. Supp. 3d 117, 138–39 (D. Conn. 2014) (granting and denying defense motion for summary judgment; noting rule regarding preparations to compete, finding that signing a lease for a future business and incorporating the new business before departing was permissible, but that a jury would have to hear claims of breach regarding alleged misuse of trade secrets and co-worker solicitation); Caldwell v. J&J Rocket Co., No. CV-13-08043-PCT-PGR, 2014 U.S. Dist. LEXIS 139599, *14–15 (D. Ariz. Sept. 30, 2014) (granting summary judgment for former employee where court found she did not breach her duty of loyalty by seeking contact information for an entity that was not her employer's customer before departing; conduct was lawful preparations to compete); PTSI, Inc. v. Haley, 71 A.3d 304, 306–07, 310 (Pa. Super. Ct. 2013) (former employees' permitted activities included locating office space for the future business); Advanced Arm Dynamics of New Eng., LLC v. Comprehensive Prosthetic Serv., LLC, No. CV 06-5004605S, 2011 Conn. Super. LEXIS 182, *32–60 (Conn. Super. Ct. Feb. 23, 2011) (in unusually comprehensive bench trial ruling, court considered Restatement regarding preparations to compete and found that officer had violated fiduciary duty by pre-departure solicitation of co-workers and patients, and by taking confidential information, but not by acts such as incorporating a new company, having an attorney obtain a business license, seeking office space, and ordering equipment); Western Med. Consultants, Inc. v. Johnson, 835 F. Supp. 554, 559 (D. Ore. 1993) (finding on bench trial in favor of former employee on breach of fiduciary duty claim and noting rule allowing preparations to compete; in planning to open office in Alaska, employee did not solicit customers and simply "utilize[ed] general logistical information and know-how acquired through her general employment and experience with [the employer.]"), *aff'd*, 80 F.3d 1331, 1336–37 (9th Cir. 1996); Harllee v. Professional Serv. Indus., Inc., 619 So.2d 298, 300–01 (Fla. Dist. Ct. App. 1992) (reversing judgment in favor of former employer and finding that employee engaged in lawful preparations to compete by opening a bank account and acquiring "office space and telephone listings and services" for new office of competing business that was about to open; he did not solicit customers or co-workers, and his "subjective state of mind—his hope or desire that [employer's] employees join [new business]—is not actionable."); Dwyer, Costello and Knox, P.C. v. Diak, 846 S.W.2d 742, 747 (Mo. Ct. App. 1993) (finding no breach for renting office space and printing stationary).

C. Footnote 35: Permitted Preparatory Step of Pre-Resignation Announcement

Imagewear Int'l, Inc. v. Johnson, G.D. No. 14-008888, 2015 Pa. D. & C. Dec. LEXIS 15238, 22–23 (Pa. Ct. Common Pleas Jul. 14, 2015) (denying request for preliminary injunction where, among other things, departing employee's pre-resignation contact with co-workers or customers was not improper; noting right to prepare to compete and finding no trade secrets in general customer information); PTSI, Inc. v. Haley, 71 A.3d at 304, 306–07, 310 (Pa. Super. Ct. 2013) (permissible to notify employers' customers that departing employers were starting a new business); Connors v. Howe Elegant, LLC, No. 4003783, 2009 WL 242324, at *9–10 (Conn. Super. Ct. Jan. 8, 2009) (on bench trial, court found that defendant lawfully prepared to compete without violating her fiduciary duty; two competing beauticians founded new LLCs with the knowledge of the other as their business fell apart; finding that accused party merely informed co-workers of her plans, and co-workers told customers about their desire to leave and join the accused party; finding that this did not amount to unlawful solicitation; noting that "[t]hese are not wealthy people; they are beauticians . . . who could not afford to suspend their livelihood while awaiting the outcome of litigation, now three and one-half years old."); New L&N Sales & Mktg., Inc. v. Menaged, No. CIV. A. 97-4966, 1998 WL 575270, at *7 (E.D. Pa. Sept. 9, 1998) (no breach to schedule an appointment with a customer for a date after the fiduciary's resignation, when ex-fiduciary would be free to solicit that customer); Mercer Mgmt. Consulting, Inc. v. Wilde, 920 F. Supp. 219, 234–35 (D.D.C. 1996) (no breach where fiduciaries invited other employees to a dinner to solicit them where the date of the invitation was set for a date after their departures); Nilan's Alley, Inc. v. Ginsburg, 420 S.E.2d 368, 369–70 (Ga. Ct. App. 1993) (affirming summary judgment for former employee including as to breach of fiduciary duty claim; noting that preparations to compete are lawful and finding that rather than soliciting customers while still employed, employee "simply inquired of [employer's] customers whether, in the event he left [employer's] employment in the future, they would consider continuing to place their orders through him."); McAllister Co. v. Kastella, 825 P.2d 980, 981 (Ariz. Ct. App. 1992) (officer did not breach duty by giving 30 days notice and then sending a letter to the employer's customers announcing her resignation but not soliciting them); Dworkin v. Blumenthal, 551 A.2d 947, 949 (Md. Ct. Spec. App. 1989) (no breach where dentists gathered non-secret patient list before leaving, gave notice, and sent letters to their own patients before departing); Walter E. Zemitzsch, Inc. v. Harrison, 712 S.W.2d 418, 422 (Mo. Ct. App. 1986) (no breach where fiduciary told employer's customer that he would be forming a new entity); Ellis & Marshall Assocs., Inc. v. Marshall, 306 N.E.2d 712, 716–17 (Ill. App. Ct. 1974) (fiduciary not liable for merely informing coworkers and employer's customers that he planned to resign and form competing entity); Cudahy Co. v. Am. Labs., Inc., 313 F. Supp. 1339, 1345–48 (D. Neb. 1970) (judgment for former employees; noting rule allowing preparations to compete;

no evidence that employees solicited customers while still employed; "Certain customers were notified of their intent to leave and go into direct competition but that, in itself, is permissible. A departing employee may not solicit his employer's customers but he may advise the customers of his intention to leave and set up a competing business"; court did find that one employee violated duty of loyalty for not disclosing that "he was "acting as a broker for a competitor" while still employed, but found no damages); Metal Lubricants Co. v. Engineered Lubricants Co., 411 F.2d 426, 427–31 (8th Cir. 1969) (noting rule allowing preparations to compete; manager informed employer he would leave and compete and that other employees "in all probability" would "come with him"; affirming denial of injunctive relief, including as to duty of loyalty claim and noting that manager's "intentions were all open and above board"); *see also* Corp. Express Office Prod. v. Haley, Civil No. 04-1075-HA, 2005 U.S. Dist. LEXIS 48362, *10–11 (D. Or. Apr. 13, 2005) (summary judgment to employee of bankrupt company on fiduciary duty claim where he had merely, before leaving, responded to a client's email to make plans to meet her after leaving, which did not injure plaintiff; noting rule allowing preparations to compete); Hale Trucks of Md., LLC v. Volvo Trucks N. Am., Inc., 224 F. Supp. 2d 1010, 1023–25 (D. Md. 2002) (departing president of company did not breach fiduciary duty by informing customers of truthful, non-confidential information about employer's financial difficulties, which could affect customers); Allied Supply Co. v. Brown, 585 So. 2d 33, 35–37 (Ala. 1991) (employees were not required to disclose plans to resign, but finding triable issues of fact on allegations that they solicited co-workers, customers, and vendors before leaving; "The defendants do not deny that they spoke with customers, vendors, and employees about their plans to form a business and encouraged them to either work for or trade with that business. However, they contend that their conduct in these matters was 'ambivalent' or 'casual' and therefore did not constitute a breach of fiduciary duty.")

D. Footnote 42: Prohibited Preparatory Activity: Pre-Resignation Solicitation

See Les Fields/C.C.H.I Ins. Servs. v. Hines, No. 15-cv-03728-MEJ, 2016 U.S. Dist. LEXIS 162163, *27–71 (N.D. Cal. Nov. 22, 2016) (granting and denying defense summary judgment motion as to "business interference" and related claims; finding triable fact issues where defendants caused mass resignation of 80 percent of workforce, or six employees, and coordinated a departure "at the height of [employer's] busy season"); Regents of the Univ. of Cal. v. Aisen, No. 15–cv–1766–BEN (BLM), 2016 WL 4097072, *4–5 (S.D. Cal. Apr. 18, 2016) (defendant's' motion to dismiss claims for breach of fiduciary duty denied where plaintiff alleged that defendant "was entrusted with meaningful authority and control and orchestrated wholesale exodus of UCSD faculty and staff to an unrelated private university"); Am. Shooting Ctr., Inc. v. Secfor Int'l, No.: 13cv1847 BTM(JMA), 2016 U.S. Dist. LEXIS 40523, *20–21

(S.D. Cal. Mar. 28, 2016) (denying motion to dismiss breach of fiduciary duty claim; noting rule allowing preparations to compete, but plaintiff alleged pre-departure solicitation of customers and use of its training materials by departing employee "in conjunction with" his new business); Base One Tech., Inc. v. Ali, 78 F. Supp. 3d 186, 197–99 (D.D.C. 2015) (denying defendants' motion to dismiss faithless servant cause of action where employer accused employees of offering services to a customer while still employed); Shamrock Power Sales, LLC v. Scherer, No. 12-CV-8959 (KMK), 2015 U.S. Dist. LEXIS 133650, *72–77 (S.D.N.Y. Sept. 30, 2015) (granting summary judgment for former employer on breach of fiduciary duty claim; noting rule allowing preparations to compete but finding that former employee engaged in a wide range of misconduct including misuse of confidential information, soliciting customers, and engaging in competing transactions before leaving); Cmty. Ties of Am., Inc. v. NDT Care Servs., LLC, NO. 3:12-CV-00429-CRS, 2015 U.S. Dist. LEXIS 14990, *23–28 (W.D. Ken. Feb. 9, 2015) (under Kentucky law, which prohibits preparations to compete, finding that departing employee violated fiduciary duty, "made arrangements and preparations—copying files, soliciting employees and clients" to transfer a program to the next employer; notably, these facts seemingly would also be unlawful in jurisdictions that permit preparations to compete); Snelling Servs., LLC v. Diamond Staffing Servs., Inc., No. RG12618214, 2013 WL 3947175, *2–4, 7–9 (Cal. Ct. App. July 30, 2013) (affirming preliminary injunction, largely on post-resignation trade secret misappropriation, but also finding that departing executive's pre-departure documentation of a plan to hire co-workers rendered non-credible declarations by employees that they had not been solicited); Invesco Inst. (N.A.), Inc. v. Deutsche Inv. Mgt. Am., Inc., No. 650154/07, 2011 N.Y. Misc. LEXIS 6949, *12–14 (N.Y. Sup. Ct. Apr. 12, 2011) (denying defense motion for summary judgment, finding triable fact issues that alleged solicitation of employees and clients of employer went beyond permissible preparations to compete); Pure Power Boot Camp, Inc. v. Warrior Fitness Boot Camp, LLC, 813 F. Supp. 2d 489, 500, 521–23 (S.D.N.Y. 2011) (on bench trial, finding that former employees violated their duties of loyalty through a variety of wrongful acts including taking business and customer documents, soliciting customers, and acting to cause employer to be understaffed—including by having a co-worker fired); Rimkus Consulting Group, Inc. v. Cammarata, 688 F. Supp. 2d 598, 623–24 669–70 (S.D. Tex. 2010) (denying defense motion for summary judgment on breach of fiduciary duty claim; defendants had right to prepare to compete, but there was substantial evidence of taking of trade secrets to solicit customers); Beard Research, Inc. v. Kates, 8 A.3d 573, 602——03 (Del. Ch. 2010) (finding that defendant breached his fiduciary duty before departing by taking confidential information, and by "inducing the resignation of certain . . . key employees to join a competitor" and making plans to "take business" from the employer, which the court characterized as "usurping . . .business opportunities"); Thomas Weisel Part. LLC v. BNP Paribas, No. C 07-6198 MHP, 2010 WL 1267744, *2–10 (N.D. Cal. Apr. 1, 2010) (finding for plaintiff on summary judgment where its director facilitated the mass departure of many employees to a competitor by sharing their salary and bonus information, arranging for interviews, and negotiating for a team departure; court found facts "eerily similar" and "materially indistinguishable" from California's seminal Bancroft-Whitney v. Glen decision); Mercury Plastics, Inc. v. Rabchev, No. B207264, 2009 WL 1594354, *3–5 (Cal. Ct. App. June 9, 2009) (affirming jury verdict where two individuals who served as board members were found liable for breach of fiduciary duty where they resigned without notice to form a new company shortly after leaving, but evidence showed that they had begun soliciting the plaintiff's customers and employees before resigning to cause them to leave en masse); Sec. Title Agency, Inc. v. Pope, 200 P.3d 977, 989–92 (Ariz. Ct. App. 2009) (affirming jury verdict of breach of fiduciary duty against person serving as branch manager, officer, and assistant vice president, and verdict of aiding and abetting breach of fiduciary duty by new employer, where individual and new employer worked to recruit some forty co-workers while she was still employed for mass departure; rejecting argument that such conduct was mere preparations to compete); Gartner, Inc. v. Parikh, CV 07-2039-PSG, 2008 WL 11336333, *10–12 (C.D. Cal. Oct. 10, 2008) (finding triable issues of fact on claims that an employee breached his duty of loyalty and a fiduciary duty by allegedly meeting with one client and drafting a sales proposal for another on behalf of his new employer, plaintiffs' competitor); CTRE, LLC v. Colburn, No. CV074028031, 2008 WL 2796870, *5–6, 12–13 (Conn. Sup. Ct. June 20, 2008) (denying request for early injunctive relief where former employee had made a plan to solicit coworkers before leaving, but had never acted on it during the following eleven months); Jan Marini Skin Research, Inc. v. Allure Cosmetic USA, Inc., Nos. A108613, A108631, A108633, 2007 WL 1508686, *34–35 (Cal. Ct. App. May 24, 2007) (affirming verdict for breach of fiduciary duty where employee solicited a co-worker and made efforts to solicit the employer's main customer before leaving); Books are Fun, Ltd. v. Rosebrough, No. 4:05-cv-00644-JEG, 2007 WL 9711266, *22–24, 63–64 (S.D. Iowa March 29, 2007) (denying defense motion for summary judgment as to portion of breach of fiduciary duty where there were triable issues of fact as to plaintiff's allegations that departing employee recruited co-workers and sales representatives while still employed; the words defendant used "cross[ed] the line between notification and solicitation"); PFS Distrib. Co. v. Raduechel, 492 F. Supp. 2d 1061, 1070–72, 1074–76 (S.D. Iowa 2007) (finding for plaintiff on motion for summary judgment after its sales manager and general manager formed a new, competing business by misappropriating financial trade secrets, soliciting customers and suppliers, soliciting employees, and destroying computer files, all before leaving); International Sec. Mgmt. Group, Inc. v. Sawyer, No. 3:06cv0456, 2006 U.S. Dist. LEXIS 37059, *29 (M.D. Tenn. June 6, 2006) (granting preliminary injunction to prohibit customer solicitation where departing employee went beyond preparations to compete by "putting on a presentation" for a customer before departing); C.H. Reynolds Elec., Inc. v. Spears, No. H024698, 2004 WL 296994, *5 (Cal. Ct. App. Feb. 17, 2004) (finding defendant breached his fiduciary duty before leaving job by soliciting employer's customer and casting doubt on plaintiff's ability to survive, and by not informing customer that new business did not have a necessary license); Dowd and Dowd, Ltd. v. Gleason, 816 N.E.2d 754, 763–65 (Ill. App. Ct. 2004) (affirming judgment on breach of fiduciary duty claim in favor of employer where departing employees solicited a customer and co-workers and paid themselves sizable bonuses shortly before departing); Reading Radio, Inc. v. Fink, 833 A.2d 199, 211 (Pa. Super. Ct. 2003) (affirming trial verdict against departing employee who solicited two co-workers to join him while still employed); Feddeman & Co., CPA v. Langan Assocs. PC, 530 S.E.2d 668, 673 (Va. 2000) (finding a breach of duty when some of the plaintiff's directors formed a plan to leave en masse to a competitor, plotted to take existing customers with them, and prepared resignation letters for other employees); American Express Fin. Advisors, Inc. v. Topel, 38 F. Supp. 2d 1233, 1247 (D. Colo. 1999) (granting summary judgment for employer on claim for breach of fiduciary duty where employee solicited employer's customers before departing); Dames & Moore v. Baxter & Woodman, Inc., 21 F. Supp. 2d 817, 822–24 (N.D. Ill. 1998) (plaintiff stated a claim for breach of fiduciary duty as to allegations that employee, while still employed, worked with a competitor to "bring about the resignations" of other employees who also joined the competitor); Gen. Clutch Corp. v. Lowry, 10 F. Supp. 2d 124, 132–33 (D. Conn. 1998) (affirming jury verdict on breach of fiduciary duty claim where departing executive found to have misappropriated trade secrets, solicited co-workers, introduced co-workers to customers for purposes of the new business, and withheld certain reports from the employer in order to use them for the new business); Riggs Investment Mgmt. Corp. v. Columbia Part., LLC, 966 F. Supp. 1250,1265 (D.D.C. 1997) (breach found for use of secret information and pre-resignation solicitation of coworkers); B&L Corp. v. Thomas & Thorngren, Inc., 917 S.W.2d 674, 678–79 (Tenn. Ct. App. 1995) (reversing grant of summary judgment in factor of defendants; while recognizing right to "prepare to compete," remanding where fiduciary appeared to have crossed the line by "soliciting co-employees to join him," and "contacting his employer's customers to 'announce' [his] new venture" causing them to cease business with the plaintiff); Graphic Directions, Inc. v. Bush, 862 P.2d 1020, 1023–24 (Colo. Ct. App. 1993) (affirming and reversing judgment on breach of fiduciary duty claim, but affirming finding that employees violated duty by "solicit[ing] customers prior to terminating their employment"); Augat, Inc. v. Aegis, Inc., 565 N.E.2d 415, 419–21 (Mass. Sup. Jud. Ct. 1991) (finding that newly-formed company could be liable for assisting in employee's solicitation of co-workers; remanding for damages consideration; noting general rule that "[a]n at-will employee may properly plan to go into competition with his employer and may take active steps to do so while still employed . . . [;] an employee has no general duty to disclose his plans to his employer, and generally he may secretly join other employees in the endeavor without violating any duty[.]"); Jet Courier Serv., Inc. v. Mulei, 771 P.2d 486, 497–98 (Colo. 1989) (reversing judgment in favor of departing employee on claim for breach of the duty of loyalty; employee went beyond lawful preparations to compete by soliciting customers and co-workers while still employed); Radio TV Reports, Inc. v. Ingersoll, No. 86-2852 SSH, 1989 U.S. Dist. LEXIS 11942, *5–13 (D.D.C. Aug. 15, 1989) (denying defense motion to dismiss as to breach of the duty of loyalty and related claims where former employee was accused of submitting a competing bid to a customer while still employed and taking employer's equipment); Westwood Chem. Co. v. Kulick, 570 F. Supp. 1032, 1036–37 (S.D.N.Y 1983) (employees violated duty of loyalty by negotiating with employer's customer while still employed to switch its business to their new, competing company); Fish v. Adams, 401 So.2d 843, 845 (Fla. Dist. Ct. App. 1981) (reversing judgment in part for a new trial on whether departing employees solicited customers before leaving, but finding that general preparations to plan a new business were lawful); AGA Aktiebolag v. ABA Optical Corp., 441 F. Supp. 747, 754 (E.D.N.Y. 1977) (granting injunction against former employee who formed new company using confusingly similar name that violated the Lanham Act, taking a confidential "backlog list," and soliciting customers while still employed); Furash & Co. v. McClave, 130 F. Supp. 2d 48, 53–54 (D.D.C. 2001) (denying defense motion for summary judgment in part where there were triable fact issues as to claim for breach of fiduciary duty where employee was accused of soliciting customers and a co-worker before leaving, and informing new employer she could attract key employees to it); Am. Republic Ins. Co. v. Union Fid. Life Ins. Co., 470 F.2d 820 (9th Cir. 1972) (affirming findings that managers breached their duties by engaging in co-worker and customer solicitation before resigning); Frederick Chusid & Co. v. Marshall Leeman & Co., 326 F. Supp. 1043, 1060–61, 1064–65 (S.D.N.Y 1971) (awarding former employer money damages against group of former employees who concealed plan to form a competing entity, solicited co-workers, infringed copyrights in company documents, and violated non-competition covenants—defendants were even found to have used a similar phone number for their new business); Standard Brands, Inc. v. U.S. Partition & Packaging Corp., 199 F. Supp. 161, 171–73 (E.D. Wisc. 1961) (finding a long list of breaches of fiduciary duty including misuse of trade secrets, customer solicitation, and having employees performing work for the new competitive entity being formed; also finding that nondisclosure was a breach; "[a fiduciary] may plan and develop his competitive enterprise during the course of his agency provided the particular activity engaged in is not against the best interest of his principal" since . . .[p]rotection of the principal's interest requires a full disclosure of acts undertaken in preparation for entering into competition."); Duane Jones Co. v. Burke, 117 N.E.2d 237, 245 (N.Y. Ct. App. 1954) (in a mixed reversal and affirmance, finding that officers breached their fiduciary duties by planning to "take over the business of the plaintiff agency, either by purchase of the controlling interest . . . or by resignation en masse and the formation of a new agency," and then doing the latter and taking many customers and employees with them at the commencement of the new business); Keiser v. Walsh, 118 F.2d 13, 14 (D.C. Cir. 1941) (reversing prior holding to find that plaintiff stated a claim for breach of fiduciary duty where accusation was that defendant worked with a customer while still employed to have the customer hire him in place of plaintiff; although "[a]n agent need not wait until he is on the street before he looks for other work[,]" and "may plan and prepare, during the agency, to engage in a competing business after it ceases," the agent may not "ask his principal's customers to transfer their custom, even though the transfer is not to take effect until after the agency ceases."); *cf.* Elec. Assoc., Inc. v. Automatic Equip. Dev. Corp., 440 A.2d 249, 251 (Conn. 1981) (finding no breach of fiduciary duty where officer merely accepted job offer from competitor—and counter-party in business negotiations—when negotiations faltered, and where officer only solicited employee after that employee had left the plaintiff).

E. Footnote 43: Prohibited Preparatory Act: Misuse of Trade Secrets or Employer Resources

F.S. Sperry Co. v. Schopmann, 304 F. Supp. 3d 694, 707–08 (E.D. Tenn. 2018) (granting in part motion for preliminary injunction on a host of grounds including a non-competition covenant; as to claim for breach of the duty of loyalty, court ruled that "developing a company logo, discussing financials, and acquiring equipment" "would likely constitute mere preparation," but "entertaining a prospective financial backer using [employer's] golf club membership, using [employer's] customer data to apply for insurance, and using [employer's] sales figures to help develop an internal cost structure go beyond mere preparation."); FLS Transp. Serv. (USA) v. Casillas, No. 3:17-cv-00013-MMD-VPC, 2017 U.S. Dist. LEXIS 150741, *14–15 (D. Nev. Sept. 18, 2017) (noting rule allowing preparations to compete; denying defense motion to dismiss where departing employee was accused of using confidential information to solicit customers before leaving); McClure v. Imperial Woodworking Co., No. 16-cv-02323-MSK-KLM, 2017 U.S. Dist. LEXIS 125619, *9 (D. Colo. Aug. 9, 2017) (magistrate judge's recommendation that motion to dismiss be denied despite former employee's contention of mere preparations to compete where former employer alleged that employee "utilized" its "resources to travel to Hong Kong and solicit" a supplier to terminate its relationship with the employer in favor of employee's planned new venture); Am. Shooting Ctr., Inc. v. Secfor Int'l, No. 13-cv-1847-BTM, 2016 U.S. Dist. LEXIS 40523, *20–21 (S.D. Cal. March 28, 2016) (denying motion to dismiss breach of fiduciary duty claim; noting rule allowing preparations to compete, but plaintiff alleged pre-departure solicitation of customers and use of its training materials by departing employee "in conjunction with" his new business); Solid Wood Cabinet Co. v. Partners Home Supply, No. 13-3598, 2015 U.S. Dist. LEXIS 31655, *17–24 (E.D. Penn. March 13, 2015) (denying defendants' motion for summary judgment as to breach of duty of loyalty claims; court found triable fact issues regarding allegations of trade secret misuse and customer solicitation that went beyond mere preparations to compete); Wayman Fire Prot. v. Premium Fire & Sec., LLC, No. 7866-VCP, 2014 Del. Ch. LEXIS 33, *80–82 (Del. Ch. March 5, 2014) (unpublished) (judgment in favor of employer on breach of duty of loyalty claim where employee downloaded and retained confidential software files used to make fire control systems operational); NCMIC Fin. Corp. v. Artino, 638 F. Supp. 2d 1042, 1082–85 (S.D. Iowa 2009) (after bench trial, court found that plaintiff's vice president and general manager violated fiduciary duty where he entered into an agreement with another business while still employed to divert leases from the plaintiff to the other company, used employer's' time, money, and resources to do so, and also misused a secret customer spreadsheet for the other company, all to obtain commissions for his new company—the operation of which had been enjoined in an earlier court order); PFS Distrib. Co., 492 F. Supp. 2d 1061, 1070–72, 1074–76 (S.D. Iowa 2007) (defendants' wrongful pre-departure acts included soliciting customers, suppliers, and employees); Mann v. GTCR Golder Rauner, LLC, 483 F. Supp. 2d 864, 875–78 (D. Ariz. 2007) (in a confusing ruling denying defendant's summary judgment motion on claim for breach of fiduciary duty, court seemingly expressed skepticism as to theory of preparations to compete, while finding triable fact issues that former executive wrongfully engaged in asset sale of failing employer's division to himself); Fryetech, Inc. v. Harris, 46 F. Supp. 2d 1144, 1155–56 (D. Kan. 1999) (officers violated fiduciary duties when, instead of scrapping employer's old equipment as instructed, they took such property for use in setting up a competing business, and disparaged the employer along the way); Gen. Clutch Corp. v. Lowry, 10 F. Supp. 2d 124, 132–33 (D. Conn. 1998) (departing executive's wrongful acts included misappropriation of trade secrets); Golden Eagle/Satellite Archery, Inc. v. Epling, 665 N.Y.S.2d 169, 170 (App. Div. 1997) (fiduciary used company resources to develop product for which he later sought patent); Alexander & Alexander Benefits Serv., Inc. v. Benefit Brokers & Consultants, Inc., 756 F. Supp. 1408, 1413 (D. Or. 1991) (extensive use of company time and resources to organize a competing entity); Radio TV Reports, Inc. v. Ingersoll, No. 86-2852 SSH, 1989 U.S. Dist. LEXIS 11942, *5–13 (D.D.C. Aug. 15, 1989) (motion to dismiss denied where, among other things, plaintiff alleged that employee had taken its equipment); Chelsea Indus., Inc. v. Gaffney, 449 N.E.2d 320, 321–27 (Mass. 1983) (affirming trial court judgment against fiduciaries; recognizing the right to make preparations to compete but finding sweeping acts of wrongdoing by fiduciaries including misuse of employer's money for trips used to gather information for new venture, soliciting customers, use of work time for their new venture, paying a kickback to an employee which led to "inadequate maintenance" of equipment, and buying equipment at prices in excess of market value to assist new venture); Las Luminarias of N.M. Council of the Blind v. Isengard, 587 P.2d 444, 450–51 (N.M. Ct. App. 1978) (reversing dismissal in favor of employees and remanding; finding that employees who, while still employed, used employer's records to prepare a competing funding application violated their duties of loyalty); Frederick Chusid & Co. v. Marshall Leeman & Co., 326 F. Supp. 1043, 1060–61, 1064–65 (S.D.N.Y 1971) (group of former employees misused copyrights in company documents and obtained a similar phone number for their new business); Sequoia Vacuum Sys. v. Stransky, 229 Cal. App. 2d 281, 286–87

(1964) (officer gave employer's confidential designs to competing entity being formed); Daniel Orifice Fitting Co. v. Whalen, 198 Cal. App. 2d 791, 797 (1962) (officer secretly put to paper detailed specifications of improvements to the plaintiff's product during off-work hours and then resigned to sell his ideas through a new entity).

F. Footnote 45: Prohibited Preparatory Act: Sabotage of Employer's Business

Liberty Mut. Ins. Co. v. Gemma, 301 F. Supp. 3d 523, 531–32 (W.D. Penn. 2018) (former employer stated claim against former employee for breach of the duty of loyalty and breach of fiduciary duty where it alleged that he went beyond mere preparations by downloading confidential files, using company time for the new venture, and taking steps to undermine a customer account in the hope of soliciting that customer in the future); What 4 LLC v. Roman & Williams, Inc., No. C-12-0784 EMC, 2012 U.S. Dist. LEXIS 69342, at *14–16 (N.D. Cal. May 17, 2012) (where architectural firm was accused of breaching fiduciary duty to hotel company by misleading company before leaving project, court denied motion to dismiss to that extent while noting rule permitting preparations to compete and expressing doubt about a viable damages claim); Angelica Textile Servs., Inc. v. Park, 220 Cal. App. 4th 495, 498–99 (2013) (in appeal focused on whether tort claims were preempted by the Uniform Trade Secrets Act, court reversed for findings on claims including breach of fiduciary duty where "plaintiff asserted a former employee breached his employment agreement and his duty of loyalty to plaintiff because, while still employed by plaintiff, the employee disparaged plaintiff to a local bank and, in negotiating new linen contracts with large customers of plaintiff, gave the customers cancellation rights that are not customary in the industry and that permitted those customers to shortly thereafter take their business to the employee's new employer."); Pure Power Boot Camp, Inc. v. Warrior Fitness Boot Camp, LLC, 813 F. Supp. 2d 489, 500, 521–23 (S.D.N.Y. 2011) (former employees violated their duties of loyalty such as acting to cause employer to be understaffed—including by having a co-worker fired); Navigant Consulting, Inc. v. Wilkinson, 508 F.3d 277, 281, 284–85 (5th Cir. 2007) (affirming jury verdict in employer's favor on fiduciary duty claim where managers of regional office attempted to sell their practice for their own benefit, disclosed confidential information to competitors, solicited employees and failed to disclose their plans until company signed four-year lease for office; rule allowing preparations to compete inapplicable to such conduct); Allergia, Inc. v. Bouboulis, No. 14-CV-1566 JLS (RBB), 2016 WL 4447522, at *5 (S.D. Cal. May 19, 2006) (denying defendant's motion to dismiss claim for breach of fiduciary duty where plaintiff alleged that employee secretly filed a competing patent application similar to the employer's own patent application, harming the employer's ability to obtain investment); Scanwell Freight Express STL, Inc. v. Chan, 162 S.W.3d 477, 480–82 (Mo. 2005) (employee allegedly breached duty of loyalty by, among other things, securing the employer's leased premises for the future business while still employed, though court reversed verdict because the jury instructions failed to mention the right to make preparations to compete and the fact that engaging in direct competition goes beyond mere preparations); New L&N Sales & Mktg., Inc. v. Menaged, No. 97-4966, 1998 U.S. Dist. LEXIS 14008, *23–24 (E.D. Penn. Sept. 9, 1998) (granting summary judgment as to allegation that departing employee scheduled an appointment with a customer for a date after departing, and finding that act preparatory, but allowing breach of fiduciary duty claim to proceed as to allegation that employee's "intentional and malicious substitution of inferior or inappropriate products without customer approval and the setting of delivery dates that were both contrary to company policy and impossible for [employer] to meet."); Gen. Clutch Corp. v. Lowry, 10 F. Supp. 2d 124, 132–33 (D. Conn. 1998) (breach of fiduciary duty included withholding of certain reports from the employer in order to use them for the new business); Koontz v. Rosener, 787 P.2d 192, 195–96 (Colo. Ct. App. 1989) (affirming judgment against former employees for breach of the duty of loyalty; defendants went beyond preparations to compete in "systematically 'shortlisting,' i.e., listing properties for only a short period, and 'failing to list' properties for [former employer], so that potential listings would be prospectively available for their own competing venture, [which] was tantamount to active competition with [former employer]."); Comedy Cottage, Inc. v. Berk, 495 N.E.2d 1006, 1011–12 (Ill. Ct. App. 1986) (affirming judgment against former vice president on claim for breach of fiduciary duty where he was in charge of negotiating lease to property and, when lease terminated, he resigned and took over the lease for a new, competing business; reasoning that defendant's role in confusing the situation leading to the termination of his employer's lease rendered him culpable); Nichols-Morris Corp. v. Morris, 174 F. Supp. 691, 698 (S.D.N.Y. 1959) (judgment in favor of former employer on fiduciary duty claim where former president caused the cancellation of a sales distributorship, only to pick up that deal with another company he controlled).