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## INDUSTRY VOICES

# Protecting Your Fashion Designs Before Employees Leave

By Oleg Alexander Stolyar and Edward Woods

Innovation is at the heart of the fashion industry. Each season vast amounts of time and monies are invested to create new and original designs, with the first to the market often being the one to reap the spoils. However, unlike most other creative fields, such as publishing or cinema, the fashion industry offers few intellectual-property protections. Indeed, the most recent efforts to enact such protections for fashion designs—the Design Piracy Prohibition Act and the Innovative Design Prevention and Piracy Prohibition Act—have so far proved unsuccessful.

Given the lack of recognized intellectual-property rights in the industry, many designers have turned to contract law for protection, requiring their employees to sign broad non-compete and/or non-solicitation agreements. However, such an approach is rife with pitfalls for the unwary, as state laws regarding the validity (or even the legality) of such agreements differ widely.

Unlike most other states, California prohibits virtually all non-compete agreements, with very limited exceptions. Section 16600 of the California Business and Professions Code states: “Except as provided in this chapter, every contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void.” California law provides only two exceptions to this broad prohibition: (1) where a person sells the goodwill of, or his interest in, a business; and (2) where a partner agrees not to compete in anticipation of dissolution of, or his disassociation from, a partnership.

In 2008, in the case of *Edwards v. Arthur Andersen LLP*, the California Supreme Court expanded California’s ban of non-compete agreements to non-solicitation clauses (typically, a more narrow version of a non-compete, where an employee agrees not to solicit his employer’s customers for some limited period of time following his termination). Thus, while non-solicitation agreements precluding departing employees from poaching their fellow employees may still be valid, the poaching of their former employer’s customers is now legal



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Some employers may be tempted to retain the pre-*Edwards* non-solicitation clauses in their employment agreements, in the hope that, though unenforceable, such clauses may deter employees from trying to steal the customers when they leave. However, such tactics can lead to legal liability. Under present California law, an employer cannot lawfully make the signing of an employment agreement, which contains an unenforceable covenant not to compete, a condition of continued employment.

In other words, refusing to retain an employee because that employee would not sign a non-compete or non-solicitation agreement could conceivably subject the employer to a wrongful-termination claim. Further, even sending a simple “cease and desist” letter based on an unenforceable clause in an otherwise-valid employment agreement may subject the employer to legal liability, particularly if such letter results in the termination of the former employee from his or her new position.

Notwithstanding the above, designers are not helpless, and fashion designs may still be protected through properly drafted employment agreements. The key is California’s trade-secret statute, which was expressly exempted from the *Edwards* decision and which can be used to pro-

tect confidential business data and processes, including fashion designs.

However, before rushing to label everything a trade secret, employers should be cautioned that simply labeling certain information as a trade secret in an employment agreement is insufficient. California defines trade secrets to mean information that (1) has independent economic value from not being generally known to the public and (2) is the subject of reasonable efforts to maintain its secrecy. So, while a fashion design in the development stage is still a trade secret, the trade-secret protection would no longer apply after that fashion design is exhibited on a runway.

To preserve the trade-secret protections set forth in their employment agreements (e.g., with respect to customer lists, fashion designs, etc.), California designers should take reasonable steps to maintain the secrecy of all information so labeled. Such steps may include:

- Robust confidentiality and/or non-disclosure agreements;
- Employee education programs that stress the confidentiality of company designs/data;
- Regular evaluations of security protocols to ensure that confidential materials are adequately protected; and
- Effective exit interviews, so that employees are properly cautioned against disclosure of confidential information when they leave the company.

Finally, any designer with employees in California should be careful not to include broad non-compete or non-solicitation clauses in his or her employment agreements, as those clauses may not only prove to be unenforceable but may also subject such employers to legal liability.

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