Honorable Ronald B. Leighton

UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF WASHINGTON, AT TACOMA

MORGAN STANLEY SMITH BARNEY LLC, a Delaware limited liability company, Plaintiff, v. SCOTT MALOY, an individual, Defendant.	NO. 3:14-cv-05388 RBL PLAINTIFF'S OPENING BRIEF IN SUPPORT OF MOTION FOR PRELIMINARY INJUNCTION ORDER Scheduled for Hearing: May 22, 2014

I. RELIEF REQUESTED

By Order dated May 13, 2014, this Court granted plaintiff Morgan Stanley Smith Barney LLC's ("Morgan Stanley") Motion for Temporary Restraining Order and Expedited Discovery and set a hearing on Morgan Stanley's Motion for Preliminary Injunction for May 22, 2014, against defendant Scott Maloy ("Maloy" or "Defendant"), a former Morgan Stanley financial advisor.

Here, Morgan Stanley requests the issuance of a preliminary injunction to continue to preserve the status quo and to prevent Defendant from illegally using Morgan Stanley's

LAW OFFICES OF
MILLS MEYERS SWARTLING
1000 SECOND AVENUE, 30TH FLOOR
SEATTLE, WASHINGTON 98104-1064
TELEPHONE (206) 382-1000
FACSIMILE (206) 386-7343

confidential trade secret information to steal Morgan Stanley's clients for himself and a Morgan Stanley competitor, Linsco Private Ledger ("LPL"). Although a showing of irreparable harm is not required for entry of an injunction pursuant to the Washington Uniform Trade Secrets Act ("UTSA"), such a showing has been made here. Morgan Stanley has spent years cultivating its confidential client relationships and, unless a preliminary injunction issues, Defendant will destroy those efforts.

Morgan Stanley seeks this injunctive relief only until a permanent injunction is either granted or denied following a permanent injunction hearing to be held pursuant to Section 13804 of the FINRA Code of Arbitration Procedure for Industry Disputes. Section 13804(b) requires that the permanent injunction hearing begin within 15 days of the issuance of the TRO in this matter, or by May 28, 2014. Thus, the period of injunctive relief sought herein is short; however, the harm that will result without such relief cannot be overstated.

II. FACTS

A. Maloy's Employment With Morgan Stanley.

From approximately April 2008, until his resignation on May 2, 2014, Defendant was employed as a financial advisor in Morgan Stanley's Tacoma, Washington branch office. Declaration of Timothy Truebenbach ("Truebenbach Decl."), Dkt. # 5, ¶¶ 3 and 4.[1] As a condition of his employment by Morgan Stanley, Defendant signed a Special Compensation Agreement (the "Agreement"). *Id.,* Dkt. #5, ¶¶ 3, 4 & Ex. A.[2]

[1] Unless otherwise mentioned, all Declarations described herein reference the Declarations previously submitted by Morgan Stanley in support of its Motion for Temporary Restraining Order, Preliminary Injunction, And Order Granting Leave to Conduct Expedited Discovery.

[2] The Agreement states that it is between Defendant and Citigroup Global Markets Inc. ("Smith Barney"), a predecessor of Morgan Stanley. The Agreement expressly states, at paragraph 7, that the benefits of the Agreement run to the successors of Smith Barney (Truebenbach Decl., Dkt. #5, ¶ 3, Ex. A); therefore, Morgan Stanley is entitled to enforce the Agreement against Defendant.

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SEATTLE, WASHINGTON 98104-1064
TELEPHONE (206) 382-1000
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The Agreement expressly prohibits Defendant from using confidential Morgan Stanley client information and records outside of the normal course of his employment, from removing such records from the premises of Morgan Stanley, and, for a period of one year from the date of termination, from soliciting clients of whom Defendant learned while employed by Morgan Stanley. *Id.* By the Agreement, Defendant agreed that any client record and information was confidential and proprietary to Morgan Stanley. *Id.*

The relevant portions of the Agreement provide as follows:

> 4. **Confidentiality of Records/Non Solicit.** Employee understands that any client record and information, including names, addresses, telephone numbers and account information, whether generated by Smith Barney or Employee, are confidential and proprietary information and important business assets of Smith Barney. This information is extremely valuable to Smith Barney, is not generally known outside Smith Barney, is unique and cannot be easily duplicated or acquired. Employee agrees to use such information only in the normal course of Employee employment with Smith Barney and will not remove any client-related records from Smith Barney's premises, whether in original or copied form. Employee further agrees that for a period of one year following Employee's termination of employment from Smith Barney, for any or no reason, Employee will not solicit or contact any clients that Employee learned of during employment with Smith Barney, other than those clients which Employee may have brought with Employee and for whom the Employee was the broker of record at Employee's prior employer. In the event Employee breaches this paragraph, Employee agrees that Smith Barney will be entitled to injunctive relief. Employee recognizes that Smith Barney will suffer immediate and irreparable harm and that money damages will not be adequate to compensate Smith Barney or to protect and preserve the status quo. Therefore, Employee CONSENTS TO THE ISSUANCE OF A TEMPORARY RESTRAINING ("TRO") or A PRELIMINARY or PERMANENT INJUNCTION ("PI") ordering: (a) that Employee return all records in any form that they exist; (b) that employee be restrained from using or disclosing any information contained in such records; (c) that Employee be restrained, for a period of one year, from soliciting or contacting any clients that Employee learned of during the employment with Smith Barney.

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1000 SECOND AVENUE, 30TH FLOOR
SEATTLE, WASHINGTON 98104-1064
TELEPHONE (206) 382-1000
FACSIMILE (206) 386-7343

* * * * *

> 7. **Successors.** This Agreement shall inure to the benefit of Smith Barney, its affiliates, and any successors in interest to the business of Smith Barney, whether through merger, acquisition, sale or other transfer.

B. The Departure Of Maloy From Morgan Stanley.

On May 2, 2014, Defendant resigned from Morgan Stanley without advance notice and commenced employment with LPL. Truebenbach Decl., Dkt. #5, ¶ 4. In connection with his departure, Defendant has engaged in egregious conduct in violation of his contractual, statutory, and common law obligations to Morgan Stanley and in violation of the industry Protocol for Broker Recruiting.

After Defendant's resignation, Morgan Stanley learned that the hard copy files for Morgan Stanley clients whom Defendant serviced are now missing from Defendant's former office. Declaration of Carles Appling ("Appling Decl."), Dkt. # 4, ¶¶ 2 and 3, Ex. A; Truebenbach Decl., ¶ 8. Photographs of the credenza in Defendant's former office where client files were maintained make clear that the client files are missing. *Id*., Dkt. #4, ¶¶ 2 and 3, Ex. A. Defendant did not have permission to remove, destroy, or discard hard copy client files which were used to service Morgan Stanley clients. Truebenbach Decl., Dkt. #5, ¶ 8. Confidential and proprietary client information such as contact information, financial information, account numbers, and social security numbers were maintained in client files kept by Defendant. *Id*. Financial advisors at Morgan Stanley's Tacoma office maintain hard copy client files in accordance with Morgan Stanley policy and books and records requirements imposed by FINRA. Truebenbach Decl., Dkt. #5, ¶¶ 7 and 8, Ex. C. Further, it is against Morgan Stanley policy and Defendant's contractual obligations for Defendant to retain client files including hard copy client files following his resignation. *Id*., Dkt. #5, ¶¶ 3 and 8, Ex. A at paragraph 4. Since the issuance of the TRO on May 13, 2014, the hard copy files of Morgan

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SEATTLE, WASHINGTON 98104-1064
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Stanley clients whom Defendant serviced remain missing. Defendant also has taken client contact information with him to his new employer, LPL, for the purpose of soliciting Morgan Stanley clients for which he is liable to Morgan Stanley. *Id.,* Dkt. #5, ¶¶ 5, 6, and 9, Ex. D.

Morgan Stanley became aware of the misconduct described above in the few days following Defendant's resignation, and it is reasonable to believe there have been other forms of misconduct not yet discovered. Based on this evidence, the Court issued a TRO to preserve the status quo and prevent further misconduct by Defendant. Now, a preliminary injunction is necessary to continue to preserve the status quo, to prevent further misconduct by Defendant, and to prevent any further irreparable harm to Morgan Stanley. Unless a preliminary injunction is issued, Defendant is likely to continue his illegal conduct and cause Morgan Stanley to suffer severe and irreparable injury.

III. ISSUE

Should the Court issue a preliminary injunction to continue to maintain the status quo and the relief granted by its Temporary Restraining Order of May 13, 2014 until a permanent injunction is either granted or denied following a permanent injunction hearing to be held pursuant to Section 13804 of the FINRA Code of Arbitration Procedure for Industry Disputes.

IV. LEGAL AUTHORITY

A. This Motion For Injunctive Relief Is Properly Before This Court.

Pursuant to the terms of the Agreement, the merits of Morgan Stanley's claims against Defendant are to be determined in arbitration. Truebenbach Decl., Dkt. #5, ¶3, Ex. A at paragraph 5. Nonetheless, it is well-settled that courts can, and under appropriate circumstances must, grant injunctive relief to maintain the status quo pending arbitration of the

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SEATTLE, WASHINGTON 98104-1064
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controversy.[3] *Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Bradley,* 756 F.2d 1048, 1053-1054 (4th Cir. 1985). These principles are applicable even though the FINRA Code of Arbitration Procedure for Industry Disputes provides a mechanism by which provisional injunctive relief can be obtained through the arbitration process. Section 13804 of the FINRA Code, the very provision that governs injunctive relief in the FINRA arbitration process, expressly provides that "parties may seek a temporary injunctive order from a court of competent jurisdiction."[4] Where a FINRA member elects to seek injunctive relief from a Court — as Morgan Stanley has here— the Court is duty-bound to rule on the issue of injunctive relief, and cannot relegate the parties to the FINRA arbitration process. *American Express Financial Advisors, Inc. v. Thorley,* 147 F.3d 229 (2d Cir. 1998).

B. The Requirements For A Preliminary Injunction Are Satisfied.

"Preliminary injunctive relief is available to a party that demonstrates either (1) a combination of probable success on the merits and the possibility of irreparable harm; or (2) that serious questions are raised and the balance of hardships tips in its favor." *Sammartano v. First Judicial District Court*, 303 F.3d 959, 964 (9th Cir. 2002) (quoting *A & M Records, Inc. v. Napster, Inc*., 239 F.3d 1004, 1013 (9th Cir. 2001)). Each of these two formulations requires an examination of both the potential merits of the asserted claims and the harm or hardships faced by the parties. The court has held that "[t]hese two formulations represent two points on

[3] *See PMS Dist. Co. v. Huber,* 863 F.2d 639, 642 (9th Cir. 1988); *Teradyne Inc. v. Mostek Corp.,* 797 F.2d 43, 51 (1st Cir. 1986); *Roso-Lino Beverage Distributors, Inc. v. Coca-Cola Bottling Co.,* 749 F.2d 124, 125 (2d Cir. 1984); *Ortho Pharmaceutical Corp. v. Amgen, Inc.,* 887 F.2d 460, 464 (3d Cir. 1989); *Performance Unlimited v. Questar Publishing,* 52 F.3d 1373, 1382 (6th Cir. 1995); *Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Salvano,* 999 F.2d 211, 214 (7th Cir. 1993); *Peabody Coalsales Co. v. Tampa Electric Co.,* 36 F.3d 46, 47-48 (8th Cir. 1994); *Merrill Lynch, Pierce, Fenner Smith, Inc. v. Dutton,* 844 F.2d 726, 727-728 (10th Cir. 1988).

[4] Section 13804 requires a party that seeks injunctive relief from a court to file an arbitration claim seeking an expedited hearing on permanent injunctive relief by a full panel of arbitrators. Here, Morgan Stanley filed its arbitration claim against Defendant with FINRA seeking an expedited hearing on permanent injunctive relief on May 8, 2014.

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MILLS MEYERS SWARTLING
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SEATTLE, WASHINGTON 98104-1064
TELEPHONE (206) 382-1000
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a sliding scale in which the required degree of irreparable harm increases as the probability of success decreases." *Id*. (quoting *A & M Records*, 239 F.3d at 1013, and citing *Sun Microsystems, Inc. v. Microsoft Corp*., 188 F.3d 1115, 1119 (9th Cir.1999) ("These two alternatives represent extremes of a single continuum, rather than two separate tests.")).

Additionally, under the Washington UTSA, actual or threatened misappropriation of a trade secret may be enjoined. RCW 19.108.020(1). A finding of irreparable harm is not necessary to support an injunction barring further use of or requiring the return of a trade secret. RCW 19.108.020(1), (3); CR 65(d); *Boeing Co. v. Sierracin Corp.*, 108 Wn.2d 38, 42–43, 738 P.2d 665 (1987).

As already determined by this Court in issuing the TRO and detailed below, the requirements for injunctive relief have been satisfied and a preliminary injunction consistent with the TRO should be issued.

1. Morgan Stanley Is Likely To Succeed On The Merits Of Its Claims.

a. The Agreement Is Enforceable, and Defendant's Conduct Violates the Agreement.

Under Washington law, a restrictive covenant is enforceable if reasonable. *Perry v. Moran*, 109 Wn.2d 691, 698, 748 P.2d 224 (1987); *Knight, Vale & Gregory v. McDaniel,* 37 Wn. App. 366, 369, 690 P.2d 448 (1984). Whether a covenant is reasonable involves a consideration of three factors: (1) whether restraint is necessary for the protection of the business or goodwill of the employer, (2) whether it imposes upon the employee any greater restraint than is reasonably necessary to secure the employer's business and goodwill, and (3) whether the degree of injury to the pubic is such loss of the service and skill of the employee as to warrant nonenforcement of the covenant. *Perry*, 109 Wn.2d at 698 (quoting *Knight*, 37 Wn. App. at 368). In *Perry,* the Court upheld a non-competition agreement that prohibited not only

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SEATTLE, WASHINGTON 98104-1064
TELEPHONE (206) 382-1000
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the solicitation of the former employer's clients, but also the provision of services to those clients, for a period of five years following the termination of employment. *Id.* at 700. In finding the agreement to be "proper, reasonable, and enforceable," the court stated:

> A covenant prohibiting the former employee from providing accounting services to the firm's clients for a reasonable time is a fair means of protecting that client base. A bargain by an employee not to compete with the employer during the terms of employment or thereafter for a reasonable time and within a reasonable territory, as may be necessary for the protection of the interests of the employer without imposing undue hardship on the employee, is valid.

Id. (citing Restatement of Contracts § 516(f) (1932)).

Similarly, in *Knight*, the Washington Court of Appeals upheld a three-year non-solicitation and non-competition agreement to the extent that it prohibited the departing employees from performing accounting services for those clients of the former employer with whom the employees had come into contact as a direct result of their employment. *Knight,* 37 Wn. App. at 370. In finding the covenant "reasonable and lawful," the court noted that the necessity of the covenant to protect the employer's business was enhanced in the sphere of public accounting, which, like the sphere of financial consulting, involves close, familiar client relationships that allow a departing employee to be exceptionally competitive with the firm should he or she choose to leave and offer the same services elsewhere. *Id.* The *Knight* court further found that the covenant was not unduly restrictive because, among other things, the departing employees were free to compete for clients served by anyone other than their former employer. *Id.*

Here, the restrictive covenants at issue are far narrower than those upheld in *Perry* and *Knight*. Specifically, the restrictive covenants consist of agreements not to remove confidential information of Morgan Stanley or use such information for any purpose other than conducting business for Morgan Stanley; and to refrain from soliciting any of Morgan Stanley's clients

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SEATTLE, WASHINGTON 98104-1064
TELEPHONE (206) 382-1000
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Defendant learned of while he was employed by Morgan Stanley. All of these restrictions are reasonable under Washington law. The restraint is clearly necessary to protect Morgan Stanley's business and goodwill; the restrictions do not impose on Defendant any greater restraint than is reasonably necessary and, in fact, do not prohibit Defendant from competing head-to-head for new clients at any time and in any location or from doing business with Morgan Stanley clients, so long as those clients are not "solicited" by Defendant and so long as no trade secret or other confidential information is used or disclosed in the process; and there is no injury to the public for the same reasons. Thus, the restrictive covenants contained in the Agreement are reasonable under Washington law.

Morgan Stanley is likely to prevail on a claim for breach of the Agreement because the evidence is overwhelming that Defendant removed client files and client contact information (presumably with the intent to disclose to LPL and solicit at LPL). At an absolute minimum, Defendant violated Paragraph 4 of the Agreement, which states,

> Employee understands that any client record and information, including names, addresses, telephone numbers and account information, whether generated by Smith Barney or Employee, are confidential and proprietary information and important business assets of Smith Barney. This information is extremely valuable to Smith Barney, is not generally known outside Smith Barney, is unique and cannot be easily duplicated or acquired. Employee agrees to use such information only in the normal course of Employee employment with Smith Barney and will not remove any client-related records from Smith Barney's premises, whether in original or copied form.

Truebenbach Decl., Dkt. #5, ¶¶ 3 and 4, Ex. A.

Additionally, Defendant's solicitation of the clients he learned of while working for Morgan Stanley, also constitutes a violation of Paragraph 4, which states that for one year from the date of Defendant's termination, Defendant will not solicit clients he learned of while in the employ of Morgan Stanley. Because these breaches have already occurred and are established

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1000 SECOND AVENUE, 30TH FLOOR
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by the evidence, Morgan Stanley has shown a likelihood of prevailing on the merits of its breach of contract claim. A preliminary injunction is necessary to continue the status quo and to prevent further breaches of the Agreement and enforce Morgan Stanley's contractual rights.

b. Defendant's Conduct Violates The Washington UTSA.

The UTSA authorizes the issuance of injunctive relief for an actual or threatened misappropriation of a trade secret. RCW 19.108.020(1). Additionally, in appropriate circumstances, a court may enter an order compelling affirmative acts to protect a trade secret. \RCW 19.108.020(3).

Generally, taking an employer's confidential customer list and client information without permission is a trade secret misappropriation in violation of the UTSA. *Thola v. Henschell*, 140 Wn. App. 70, 79, 164 P.3d 524, 528 (2007) (citing *Ed Nowogroski Ins., Inc. v. Rucker,* 137 Wn.2d 427, 971 P.2d 936 (1999)). A customer list and client information are a protected trade secret under the UTSA if (1) they are a compilation of information (2) that is valuable because unknown to others, and (3) the owner has made "reasonable attempts" to keep the information secret. *Ed Nowogroski Ins*., 137 Wn.2d at 442. A compilation of information can constitute a trade secret even if some elements of the compilation are in the public domain. *Boeing Co. v. Sierracin Corp*., 108 Wn.2d 38, 50, 738 P.2d 665 (1987). In *Nowogroski*, the trial court found that insurance information, including insurance summaries, customer lists and other documents containing names, expiration dates, coverage information and related information produced by the agency or by the insurance company and kept by the agency constituted trade secrets under the UTSA. 137 Wn.2d at 432, 439.

"Misappropriation" of a trade secret can occur in a number of ways, including the use or disclosure of a trade secret by someone who knows or has reason to know that his or her

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TELEPHONE (206) 382-1000
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knowledge of the secret was "acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use." RCW 19.108.010(2)(b)(ii)(B). An employee's duty not to divulge or use secret information continues after the termination of his or her employment, even in the absence of a restrictive covenant. *Ed Nowogroski Ins.*, 137 Wn.2d at 437. Further, the Washington Supreme Court has determined that misappropriation applies not only to physical documents, but also to trade secret information retained in the employee's memory. *Id.* at 444-45. Thus, the UTSA does not require a plaintiff to prove actual theft or conversion of physical documents embodying the trade secret information to prove misappropriation. *Id.* at 445.

In this case, the records that Defendant removed from Morgan Stanley are a "compilation" of information that includes (among other things) the names of actual and potential customers, addresses, and unique investment characteristics and financial data pertaining to its individual customers. Truebenbach Decl., Dkt. #5, ¶¶ 8, 10, and 13. This information enables Morgan Stanley to serve its customers effectively, and the information is not readily available to the general public or Morgan Stanley's competitors from a telephone book, library, professional directory or other publicly available resource. *Id.*, Dkt. #5, ¶¶ 13-15. Although competitors could independently assemble the bits and pieces of the information compiled by Morgan Stanley, competitors do not have access to and cannot independently obtain, without a substantial expenditure of time, money and effort, the totality of the information. *Id.* Indeed, without contacting each customer individually, Morgan Stanley's competitors could not acquire access to information contained in Morgan Stanley's records regarding income, net worth, investment objectives, prior investment experience, current money balances and the current securities position of Morgan Stanley's customers. *Id.* Based on these facts, it is apparent that Morgan Stanley's client records constitute a trade secret that

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clearly derive independent economic value from not being generally known to the public or other persons who can obtain economic value from its disclosure or use.

As detailed in the Truebenbach Declaration, Morgan Stanley employs reasonable efforts to maintain the confidentiality of its records. *Id*., Dkt. #5, at ¶ 14. Specifically, access to the records is restricted to those employees whose jobs require them to refer to this information, duplication of the records is prohibited, and there are constant reminders about the confidential nature of the information contained in the records. *Id.* Moreover, Morgan Stanley employees, including Defendant, are required to sign confidentiality and non-solicitation agreements with Morgan Stanley—the Agreement—whereby the employees agree to not utilize or exploit Morgan Stanley's customer records. *Id.*; Truebenbach Decl., Dkt. #5, ¶ 3, Ex. A. For these reasons, numerous decisions have accorded trade secret status to customer information maintained by brokerage firms.[5]

Defendant's removal and use of Morgan Stanley's trade secrets for the purpose of soliciting Morgan Stanley clients constitutes "misappropriation" of Morgan Stanley's trade secrets and violates the UTSA because Defendant knew or had reason to know that his knowledge of the secrets was "acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use," as demonstrated by the fact that he signed the Agreement as a condition of employment.

Under UTSA, actual or threatened misappropriation of a trade secret may be enjoined, RCW 19.108.020(1), even without a finding of irreparable harm. RCW 19.108.020(1); CR 65(d); *Boeing Co. v. Sierracin Corp.*, 108 Wn.2d 38, 42–43, 738 P.2d 665 (1987). Thus, the

[5] *See Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Kramer*, 816 F.Supp. 1242, 1246 (N.D.Ohio 1992); *Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Hagerty*, 808 F. Supp. 1555, 1558 (S.D. Fla. 1992); and *Ruscitto v. Merrill Lynch, Pierce, Fenner & Smith, Inc.,* 777 F. Supp. 1349, 1354 (N.D. Tex. 1991), *aff'd per curiam,* 948 F.2d 1286 (5th Cir. 1992).

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Court should enter a preliminary injunction continuing to restrain Defendant from using or disclosing Morgan Stanley's trade secrets and requiring Defendant to return all such trade secrets to Morgan Stanley.

c. Defendant Violated His Common Law Duty of Loyalty.

During the time that Defendant was a Morgan Stanley employee, he owed a duty of loyalty that required him to act only in Morgan Stanley's best interests. *Moon v. Phipps*, 67 Wn.2d 948, 954-55, 411 P.2d 157 (1966). An employee is not entitled to solicit clients for rival business or in direct competition with his or her employer's business during employment, even absent an employment contract imposing a contractual duty of non-competition. *Kieburtz & Assocs., Inc. v. Rehn,* 68 Wn. App. 260, 265, 842 P.2d 985, 988 (1992). Here, Defendant breached his duty of loyalty to Morgan Stanley when he misappropriated Morgan Stanley's records with the intent to solicit clients to transfer their accounts. Additionally, at a minimum, Defendant's conduct in taking confidential Morgan Stanley client files and client contact information, demonstrates an egregious breach of his duty of loyalty. On this evidence alone, Morgan Stanley has established a likelihood of success on this claim.

2. Morgan Stanley Is Likely To Suffer Irreparable Injury if A Preliminary Injunction Is Not Granted, and There Is No Adequate Remedy at Law.

Morgan Stanley will suffer immediate irreparable harm if a preliminary injunction does not issue. Numerous courts have determined that a brokerage firm has no adequate remedy at law in the absence of an injunction when departing registered representatives have engaged in conduct substantially the same as that in which Defendant has engaged. Indeed, in *Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Salvano,* 999 F.2d 211 (7th Cir. 1993), the Seventh Circuit affirmed the issuance of a TRO and preliminary injunctive relief under closely analogous circumstances when it held that "the available evidence–indicating that [defendants]

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took various documents and information pertaining to Merrill Lynch's clients and used that information to solicit Merrill Lynch customers–sufficiently supports the court's determinations regarding irreparable harm and the inadequacy of Merrill Lynch's legal remedy." 999 F.2d at 215. Likewise, in *Merrill Lynch, Pierce, Fenner& Smith, Inc. v. Bradley*, 756 F.2d 1048, 1053-1054 (4th Cir. 1985), the Fourth Circuit held that *immediate* injunctive relief must be rendered "within a few days" in order to negate the otherwise irreparable harm caused by conduct such as that engaged in by Defendant.[6]

All of the considerations that supported the determination of the *Salvano* and *Bradley* courts concerning irreparable harm and the lack of an adequate remedy at law are equally present in this case. First, it will be impossible to determine Morgan Stanley's damages with any reasonable degree of certainty. This consideration has been recognized in numerous cases involving analogous circumstances as a sufficient basis for injunctive relief. In *Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Stidham*, 658 F.2d 1098 (5th Cir. 1981), the Fifth Circuit held that the breach by individual registered representatives of their employment agreements with a securities brokerage firm, and their misappropriation of the firm's trade secrets, caused irreparable harm to the firm. In making this determination, the *Stidham* court emphasized:

> [T]he injury here is such that damages could not adequately compensate. Were defendants permitted by the law to exploit the clientele of their former employers, every investment that reasonably flowed from the exploitation should be included in the damages award. How such a figure could be arrived at escapes us.

658 F.2d at 1102.

[6] Specifically, the Fourth Circuit ruled that "[w]hen an account executive breaches his employment contract by soliciting his former employer's customers, a nonsolicitation clause requires immediate application to have any effect. An injunction even a few days after solicitation has begun is unsatisfactory because the damage is done. The customers cannot be unsolicited." *Merrill, Lynch v. Bradley,* 756 F.2d at 1054.

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TELEPHONE (206) 382-1000
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Here, it would be difficult to determine Morgan Stanley's loss in profits and new business if the Agreement is not enforced. No remedy at law will make Morgan Stanley whole. *See Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Bradley,* 756 F.2d at 1055; *Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Grall,* 836 F.Supp. 428, 433 (W.D. Mich. 1993). It is impossible to determine at this time the number of Morgan Stanley clients that Defendant will (if a preliminary injunction does not issue) be able to solicit to transfer their accounts to LPL. In view of the ever-changing conditions in the securities markets, it cannot be determined with any degree of certainty the amount of the commissions that would be generated from particular customer accounts not only during the upcoming year, but also for the indeterminate amount of time in the future. Thus, the amount of commissions that Morgan Stanley would have received (but for Defendant's removal of client records and information and the solicitation of clients in violation of the Agreement) from each account is not subject to ready determination. In view of the difficulties inherent in attempting to calculate the financial loss that will be caused if Defendant's wrongful conduct is not restrained, Morgan Stanley is subjected to irreparable harm and its remedy at law is inadequate.

Morgan Stanley also will suffer irreparable harm by virtue of the unauthorized disclosure of confidential information concerning its clients. Clients have entrusted Morgan Stanley with sensitive and private financial information concerning their assets and net worth, their annual incomes, and their investment experience, goals and objectives. Truebenbach Decl., ¶¶ 10, 13 and 17. Morgan Stanley is duty-bound to maintain the confidentiality of such information. In *Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Kramer,* 816 F.Supp. 1242, 1248 (N.D. Ohio 1992), the misappropriation of such information by a former registered representative of a securities brokerage firm, and the provision of that information to a competitor, was held to have caused irreparable harm to the plaintiff firm. As in *Kramer,*

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MILLS MEYERS SWARTLING
1000 SECOND AVENUE, 30TH FLOOR
SEATTLE, WASHINGTON 98104-1064
TELEPHONE (206) 382-1000
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injunctive relief is necessary in this case to protect the privacy and sanctity of Morgan Stanley's confidential customer information and records.

Further, Defendant's misconduct causes Morgan Stanley irreparable injury by damaging the stability of the office in which he worked and by threatening Morgan Stanley with a future loss of personnel (due to the incentive that would be created for other financial advisors to violate their agreements if Morgan Stanley's Agreement with Defendant is not enforced). Truebenbach Decl., Dkt. #5, ¶¶ 12, 16. Accordingly, immediate injunctive relief also is necessary to discourage other Morgan Stanley employees from breaching their contractual commitments and diverting Morgan Stanley's trade secrets to competitors.

Finally, in the absence of a preliminary injunction, Morgan Stanley will be deprived of a full and fair opportunity to compete with Defendant for the patronage of customers.

It is beyond dispute that Defendant's conduct subjects Morgan Stanley to irreparable injury. Further Morgan Stanley and Defendant recognized at the time the Agreement was signed that Morgan Stanley would *not* have an adequate legal remedy for a breach by Defendant. Thus, Morgan Stanley and Defendant expressly agreed that the covenants set forth in Paragraph 4 of the Agreement would be enforceable by means of an injunction.[7] Morgan Stanley has established that it is exposed to irreparable harm and that it lacks an adequate remedy at law.

[7] Paragraph 4 of the Agreement provides as follows: "In the event the Employee breaches this paragraph, Employee agrees that Smith Barney will be entitled to injunctive relief."

LAW OFFICES OF
MILLS MEYERS SWARTLING
1000 SECOND AVENUE, 30TH FLOOR
SEATTLE, WASHINGTON 98104-1064
TELEPHONE (206) 382-1000
FACSIMILE (206) 386-7343

3. A Balancing of The Relative Hardships And The Public Interest Dictates That A Preliminary Injunction Should Be Granted.

The substantial likelihood of Morgan Stanley's ultimate success on the merits, and the immediate and irreparable harm to which Morgan Stanley would be subjected, weigh heavily in favor of a preliminary injunction. The balance is not shifted by any harm to Defendant resulting from an injunction, because there is no such harm (or, if any exists, it is minimal).

A preliminary injunction would simply require Defendant to adhere to his contractual and statutory obligations. Moreover, the restrictions on Defendant's activities as a result of an injunction are by no means severe. The injunctive relief sought would not foreclose Defendant from competing with Morgan Stanley, or from making his livelihood as a financial advisor. Instead, in recognition of the fact that Defendant was to service Morgan Stanley clients, and was fully compensated for such services, Defendant agreed not to solicit the patronage of those clients for a period of time after he left Morgan Stanley. Defendant is therefore free to seek the patronage of any other potential clients, of which there are millions. Moreover, if Defendant had simply chosen to abide by his Morgan Stanley contract and the promises he made to Morgan Stanley, there would be no impediment to his acceptance of business from any client who came to Defendant without solicitation.

The slight restriction imposed on defendants when enforcing confidentiality and non-solicitation covenants has routinely been held to be insufficient to preclude an injunction. Such provisions strike a reasonable balance between the interest of a firm and its ex-employee, because they do not restrict to whom the agents may sell or where, how, or for whom they may work after leaving the firm. *See Merrill Lynch v. Kramer,* 816 F.Supp. 1242, 1248 (N.D. Ohio 1992). Thus, while protecting Morgan Stanley's reasonable and legitimate interests in its goodwill and trade secrets and in prohibiting unfair competition, the covenants do not deprive

LAW OFFICES OF
MILLS MEYERS SWARTLING
1000 SECOND AVENUE, 30TH FLOOR
SEATTLE, WASHINGTON 98104-1064
TELEPHONE (206) 382-1000
FACSIMILE (206) 386-7343

Defendant of the ability to earn a livelihood by using the skills and the knowledge that Morgan Stanley provided him. *See id.*

Finally, under the circumstances present here, the entry of an injunction will promote the public interest by upholding the sanctity of contracts, by protecting the confidentiality of information provided by customers in confidence, and by ensuring that competition in the securities industry is both vigorous and fair. *See Kramer*, 816 F.Supp. at 1249. In short, every requisite needed for injunctive relief — *i.e.,* a likelihood of success on the merits, irreparable harm and the lack of an adequate remedy at law, a balancing of the relative hardships, and the public interest — militates in favor of the entry of a preliminary injunction.

C. Defendant Cannot Rely On The Protocol To Avoid A Preliminary Injunction.

Defendant may contend that a preliminary injunction should not issue because both Morgan Stanley and LPL are signatories to the industry wide Protocol for Broker Recruiting ("Protocol"), which provides a procedure by which a financial advisor can move from one Protocol firm to another Protocol firm without incurring civil liability for taking certain limited client information and soliciting those clients after associating with the new firm. Truebenbach Decl., Dkt. #5, ¶¶ 5-6, Ex. B. The Protocol, however, is not a license to steal. To obtain the Protocol's benefits, Defendant must have followed the Protocol's procedures, which include taking only limited client information upon departure from the former firm (specifically, client name, address, phone number, email address, and account title of the clients the representative served while at the firm ("the Client Information")), and providing the former firm a copy of the Client Information the representative is taking, which copy should also include account numbers (even though the departing representative cannot take those account numbers to the new firm). *Id*.

LAW OFFICES OF
MILLS MEYERS SWARTLING
1000 SECOND AVENUE, 30TH FLOOR
SEATTLE, WASHINGTON 98104-1064
TELEPHONE (206) 382-1000
FACSIMILE (206) 386-7343

Here, hard copy Morgan Stanley client files and client information for clients formerly serviced by Defendant have been removed from Defendant's former office in violation of the Protocol, as well as Defendant's contractual and statutory obligations. Appling Decl., Dkt. #4, ¶¶ 2 and 3, Ex. "A"; Truebenbach Decl., Dkt. #5, ¶ 8. As a result, Defendant cannot invoke the protections of the Protocol. Confidential Morgan Stanley client contact information also was removed from Morgan Stanley. Truebenbach Decl., Dkt. #5, ¶ 9. In short, Defendant did not come close to complying with the Protocol and has blatantly disregarded its requirements.

D. The Preliminary Injunction Should Continue The Same Relief Granted By The Temporary Restraining Order.

In seeking a preliminary injunction, Morgan Stanley is simply requesting a continuation of the same relief already granted by the TRO. Continuing the injunctive relief provided by the Temporary Restraining Order will continue the status quo, prevent Defendant from engaging in further actionable conduct, and prevent Morgan Stanley from suffering further irreparable harm.

In addition to ordering Defendant to continue to preserve all computer environments he used (including but not limited to his desktop, laptop and hand-held computers or devices), Morgan Stanley requests that Defendant also be ordered to make all computer environments he used available for immediate imaging by Morgan Stanley's computer forensic expert. Further, Morgan Stanley requests that all such images be made and received by Morgan Stanley's counsel on or before May 27, 2014, and that Morgan Stanley's counsel shall retain exclusive possession of such images but shall not access or inspect such images until the FINRA Panel of Arbitrators establishes an inspection protocol. This is the only method to ensure that all computer environments—and all relevant electronically stored information—are properly preserved.

LAW OFFICES OF
MILLS MEYERS SWARTLING
1000 SECOND AVENUE, 30TH FLOOR
SEATTLE, WASHINGTON 98104-1064
TELEPHONE (206) 382-1000
FACSIMILE (206) 386-7343

V. CONCLUSION

For all the foregoing reasons, a preliminary injunction should be issued as outlined herein.

RESPECTFULLY SUBMITTED this 16th day of May 2014.

MILLS MEYERS SWARTLING
Attorneys for Plaintiff

By: */s/Kasey D. Huebner*
Kasey D. Huebner
WSBA No. 32890
khuebner@millsmeyers.com
Mills Meyers Swartling
1000 Second Avenue, 30th Floor
Seattle, WA 98104
Tel: 206-382-1000

CERTIFICATE OF SERVICE

I certify that I electronically filed the foregoing document with the Clerk of the Court using the CM/ECF system which will send notification of such filing to:

Kasey D. Huebner: khuebner@millsmeyers.com, kbrown@millsmeyers.com

I further certify that I caused to be served by messenger a true and correct copy of the foregoing to the following non-CM/ECF participant:

Scott D. Maloy
3711 N. Monroe Street
Tacoma, WA 98407-5627

DATED May 16, 2014.

Kendra Brown, Legal Assistant
Mills Meyers Swartling

LAW OFFICES OF
MILLS MEYERS SWARTLING
1000 SECOND AVENUE, 30TH FLOOR
SEATTLE, WASHINGTON 98104-1064
TELEPHONE (206) 382-1000
FACSIMILE (206) 386-7343