WANNA KEEP A SECRET, EH?

ENFORCING RESTRICTIVE COVENANTS IN THE UNITED STATES

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There are many misconceptions among employers related to the potential of corporate espionage or trade secret theft. However, ransacking corporate information has become a multimillion dollar industry. Those formerly involved in cold war intelligence now are being hired by companies to spy on each other’s confidential information and trade secrets. Of the Fortune 100 companies, 89 now maintain in-house spies. General Electric reported that industrial spying cases resulted in losses in the millions of dollars and the layoffs of thousands of employees.

Those who seek to steal your secrets can be:

- current disgruntled employees who provide proprietary information about your customers to friends working for competitors;
- employees about to compete with you or go to work for a competitor;
- competitors;
- vendors/suppliers who are trying to gain more favorable relationships with your competitors; or even
- government agencies.

Your information can be accessed from:

- file cabinets
- rolodexes
- personnel files
- computer workstations
- internet
- e-mail
- off-site login
- high-tech surveillance equipment
- cell phones/iPhones/Blackberrys/PDAs
- fax machines
- garbage

Business leaders need to acknowledge the potential exposure they risk by not being more vigilant in tracking and securing their corporate data. Outlined below are several factors to be considered.

I. IDENTIFY AND ADDRESS POTENTIAL RESTRICTIVE COVENANT ISSUES

A. What Is A Trade Secret?

As a general proposition, the term “trade secrets” is defined as information including a formula, pattern, compilation, program, device method, technique or process that:

- derives economic value, actual or potential, from not being generally know to and not being readily ascertainable by proper means by other persons who can obtain economic value from its use and disclosure; and
is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

B. What Kinds Of Information Can Be Trade Secrets?

- customer lists - usually not just names and addresses;
- contract information such as pricing, expiration, purchasing preference information;
- supplier/vendor information involving your costs of doing business and profit margins;
- marketing information regarding your 1-, 3- or 5-year marketing plans;
- business development strategy such as new product rollouts, target markets for expansion;
- customized computer software;
- employee personnel information such as salary information that can be used to try to recruit your employees;
- formulas/inventions;
- technical processes; and
- financial records.

C. Take Caution In Your Definition

Not all information is protectable. To be a “trade secret,” the information must genuinely be confidential and not known to others in your industry or readily accessible from public sources such as the Internet, trade associations, or your own trade show and marketing literature.

Don’t be overzealous and attempt to claim that everything is confidential. Enforcing trade secrets in court involves the balancing of equities and if a court senses that you are defining too many things as confidential that are not being treated by your company as such, the court may not be as willing to protect it.

Your company must take reasonable steps to maintain secrecy of anything you wish to protect as a “trade secret.” These involve both physical security measures that your company must take to show that you and your employees treat information as though it were confidential and legal security measures. The primary purpose of having a confidentiality agreement with employees is to provide evidence of such legally intended security.

Information that is not trade secret can still be confidential information. Even if information does not qualify as a trade secret, courts may still protect the information if it was provided by you to employees in trust and confidence pursuant to a doctrine called breach of confidence. It is for this reason that it is critical that your company treats information that it wants to protect confidentially in the manner and means discussed below.

D. Types Of Restrictive Covenants

There are a variety of basic types of restrictive covenants that an employer can use to protect its interests. Hybrid clauses that muddle the features of two or more types of covenants in a single paragraph or section are particularly troublesome and should be avoided.
1. **Non-Competition**

In its purest sense, a covenant of non-competition prevents a departing employee from engaging in any business competing with the former employer in a specified area for a specified period of time following termination. This can be either as an employee of another company or as the owner of a new company. Such a covenant prohibits the former employee from engaging in, or working for, any competing business, even if the new company does not necessarily injure the business of the former employer. Since this is the most restrictive type of covenant, it is also the one most strictly scrutinized for reasonability and necessity.

A non-competition covenant must be reasonable in time, geographic area, and scope of activity. A time period of one or two years is typical. Although examples of enforceable covenants with a longer duration can be found, they are usually justified only in connection with the sale of a business or perhaps for senior managers.

As to geographic area, most states will not enforce non-compete covenants that restrict former employees from competing in areas outside that which the former employee covered for the employer. A minority of states enforce covenants that extend beyond the former employee’s territory to encompass the area in which the employer does business.

The scope of the activities prohibited, like time, depends to a great extent on the relative importance of the employee to the company. The most severe prohibition are total bans on working for a competing business in any capacity, even if it is different from the job the employee held with the prior employer. Many states do not permit such comprehensive restrictions except against a seller of a business and high-level managers. As to lower-level employees, in most cases, they can only be restricted from working in a competing business in a position similar to the one they previously held.

2. **Non-Solicitation Of Customers**

Non-solicitation covenants do not restrict employees from competing directly; rather, they prohibit the solicitation of customers and possibly others, e.g., vendors who have established business relationships with the former employer. The most narrow type of non-solicitation covenant is one that restricts former employees from soliciting business from only those customers with whom the employee had material contact. As with non-compete covenants, a one or two year time limit is common.

Non-solicitation covenants are enforced in some states even without a geographic restriction, which can be a major advantage. A broader example of this covenant might seek to limit contacts with any customers or suppliers of the former employer, irrespective of material contact. Many states would require that this broader covenant have a geographic component and would analyze it more along the lines of a non-competition covenant.

3. **Non-Recruitment Of Employees**

Non-recruitment covenants prohibit former employees from hiring away (or “raiding” or “pirating”) the employer’s current employees. In most states, such covenants require a time limit, but not a geographical restriction. These covenants can be difficult to enforce as a practical
matter because the successfully recruited employee and the alleged recruiter are usually reluctant
to provide the necessary evidence of solicitation by the former employee who is subject to the
covention.

Depending upon the state law involved, a non-recruitment coventant may or may not
prevent a former employee from hiring other employees who approach the former employee
voluntarily and without solicitation by the former employee.

4. Non-Disclosure Of Information

A non-disclosure covenant restricts employees from disclosing information learned about
customers, suppliers, or the employer's operations. As with non-solicitation and non-recruitment
covenants, most states require a time limit, but not a geographical restriction.

While non-disclosure agreements often include the term “trade secrets,” most states have
trade secrets statutes that prohibit misappropriation of such information. Very few types of
information, however, rise to the level of a “trade secret.” Thus, the primary utility of a non-
disclosure agreement is to prevent disclosure of confidential information that may not otherwise
qualify as “trade secret.”

5. Return Of Property

While all employers expect employees to return company property upon termination of
employment, there is oftentimes dispute as to what is company property and what is not. A
return of property agreement may help avoid such disputes.

Such agreements typically state that the employee must return all company property and
all documents related to the company upon termination of employment. The covenant should
define company property to include keys, equipment, client lists, files, documents, computer
printouts or software, unpublished advertisements, brochures, plans, records, drawings,
materials, papers and copies thereof, and any other tangible items which the employer wishes to
clarify as its property rather than the employee’s. The agreement should also state that the
employee agrees that any documents, card files, notebooks, rololedexes, etc. containing customer
information are the property of the company regardless of who compiled them.

E. Security Measures

1. Mark protected documents, computer programs, file cabinets and
restricted areas using designation such as “Confidential – Property of (Your Company)”.

2. Limit access to protected material. Access should be based on a “need to
know” basis. Be careful about information included in marketing and trade show
literature because information contained in such promotional items is neither confidential
nor secret. Do not provide customers with written customer lists or details about your
processes and methods of doing business if you want such information to be considered
confidential.
3. Utilize physical controls – restrict areas by locking offices and file cabinets. Use sign in/sign out cards for the file rooms and cabinets.

4. Utilize computer controls. For example:
   - set up fire walls that limit access to those who “need to know”;
   - set up passwords with multiple characters (including numbers and letters), otherwise known as two-factor authentication;
   - change access codes and passwords whenever you have departing employees;
   - record or log the identity of those who had access to computers and subfiles and when; and
   - utilize software and hardware solutions that prevent the copying, emailing or deletion of confidential information without your knowledge.

5. Control third party access:
   - vendors;
   - customers;
   - independent contractors;
   - plant and facility tours;
   - information distributed at trade show.

6. Limit copying/removal of sensitive information. Generally, anything you consider to be confidential or trade secret information should not be permitted to be removed from company facilities and should not be provided access to via remote computer access.

7. Shred confidential, discarded documents, and erase tapes thoroughly.
II. FORMULATE WRITTEN POLICIES AND PROCEDURES

A. General Requirements For Enforceable Confidentiality And Non-Compete Agreements

1. A Writing

Covenants between an employer and an employee must be in writing in virtually every jurisdiction. They are often included as part of a comprehensive employment agreement that may also address other subjects.

2. Consideration

Regardless of whether restrictive covenants are entered into at the beginning, middle, or end of employment, there must be consideration given to the employee for the employee’s promise. “Consideration” means that the employer must give something of value in return for the promises contained in the restrictive covenants. It is a requirement of all contracts, not just restrictive covenants.

B. Factors Governing Enforceability

The inquiry into whether a particular restrictive covenant is enforceable or not is highly fact sensitive and involves a balancing of the employer’s right to protect its business from unfair competition against the former employee’s right to earn a living. The burden of proving reasonableness almost always falls on the employer. An employer’s protectable interests include property, confidential information, relationships, good will, and economic advantage. In making the determination of overall reasonableness, courts typically look at three things: 1) the time that the restriction remains in effect; 2) the geographical area in which the restriction applies; and 3) the scope of activities that are prohibited. The ability of the former employee to earn a living will sometimes be examined. Covenants for non-solicitation, non-recruitment, and non-disclosure may or may not require a geographic limitation if the scope of activities is sufficiently narrow.

1. Time

The time that a restrictive covenant remains effective is the least controversial and most predictable of the three elements governing a restrictive covenant analysis. Time limits are required for all four types of restrictive covenants. A time limit of one or two years is typical. Covenants of longer duration are sometimes upheld, but usually where the employer is in a specialized business or the individual was a former owner or high-level manager.

A practical problem for enforcing these agreements is that the litigation may not be over before the time limitation expires. If the employer does not get an injunction early in the case, or if the violation is not discovered until the covenant has nearly expired, then the employee may be free to compete in any event. Although the employer may still pursue the employee for damages, this is often not cost-effective. Even if attorney’s fees are ultimately recovered in addition to damages, the defendant is often judgment-proof.
In some states, the time that a former employee is restricted will automatically be tolled while the employer obtains an injunction. For example, a former employee subject to a one-year covenant might still be enjoined for a full year from the date of judgment, even though the injunction might not issue until well after the one-year covenant began. This sometimes happens even if the contract did not address the issue. This rule varies from state to state, and such a tolling provision may need to be set forth in the contract itself in order for the court to grant such relief.

On the other hand, in some states, a provision that tolls the time in which a covenant begins to run while the former employee is in violation makes the covenant invalid because of the uncertainty it creates. The reasoning is that the individual could be sued in the far distant future if the employer can show a continuing violation of the covenant, and this completely defeats the purpose of the time restriction on the covenant. A less restrictive and more likely enforcement alternative is a tolling provision that becomes effective only upon the filing of an employer’s lawsuit challenging the enforceability of the agreement, and provided suit is filed within the life of the covenant. This would be more likely to be upheld because it could only be triggered during the period when the covenant was effective.

2. Geography

The requirement that a restrictive covenant be sufficiently narrow in geographical scope is perhaps the most troublesome element of such agreements. Even within a single state, case law is often contradictory and not easily reconciled. Although geographical restrictions are not usually required for non-disclosure, non-recruitment, or non-solicitation agreements, they almost always are essential to non-competition covenants.

At the very least, the scope of the defined territory must bear some reasonable relation to the area in which the employer does business. Otherwise, the employer is not acting to protect its business but is merely punishing the former employee for leaving. In most states, the defined territory must be even smaller – e.g., the geographic area in which the former employee actually did business on behalf of that employer.

Regardless of the type of worker involved, most states require that the area be defined with certainty and not be subject to interpretation or vagueness. For example, defining a territory defined as the “DFW area” or “North Texas” is subject to interpretation and might therefore be too indefinite. The terms “within the city limits of Dallas,” “the counties of Dallas, Tarrant, and Denton,” or “that area contained within a 10 mile radius of XYZ Corporation’s offices” describe a definite area that can be located on a map. The latter descriptions, therefore, would be preferable.

As to office workers employed at fixed locations who do not ordinarily travel, defining the geographic scope of the covenant should not be too complicated. A radius around the office is the most common method, though the size of that radius will depend on the relative importance of the employee and enforceability will vary depending upon state law. A radius of 10 to 25 miles is fairly common, and the lower end of that range is generally more appropriate for lower level employees. An alternative to use of a radius is to name particular counties or
cities. In either case, the employer would probably have to show that it actually drew customers from the defined geographic area.

Covenants purporting to restrict salespeople or others who travel are much more difficult. Ideally, these agreements should be limited to those cities or counties where the salesperson actually and regularly works on behalf of the employer. At most, they should encompass the same territory that has been assigned to the employee, though this is risky. The territory should never be defined as the whole area in which the employer conducts business.

We have often seen covenants define the geographic restriction in terms of the salesperson’s assigned territory, which may often encompass several states. In practice, the employee usually services customers in a relatively small number of cities and counties in those states and may visit some of those states rarely, if at all. On these facts, many courts would find the geographic scope of the restriction overbroad because the salesperson does not actively sell throughout the assigned territory.

Some agreements have attempted to deal with this problem by making the territory of the non-compete a flexible concept which depends on the subsequent activities of the employee. Unfortunately, this approach may also be considered overbroad because of the uncertainty it creates. Some courts have held that the geographic scope of a non-compete must be defined with certainty at the inception of the agreement, and not be dependent upon future actions of the employee. The only way to address this situation, though cumbersome, is to have the employee execute a new agreement periodically that would recognize the changes that had occurred since the last agreement.

In summary, non-competition covenants should be limited to only that geographic territory in which the employee is reasonably expected actually to perform services on behalf of the employer. With respect to employment at a fixed location, the territory should relate to that location. If the employee travels, the territory defined in the agreement should coincide with the territory where the employee actually works. If it turns out that the employee does not actually work throughout the entire territory, or that the territory changes, a new employment agreement should be executed reflecting the change in territory. While some states would permit more liberal and flexible territorial definitions, you should consider these issues carefully before defining the geographic scope in a non-competition covenant.

In most cases, no geographic component is needed in a non-disclosure covenant. A geographic scope may or may not be needed with respect to covenants of non-solicitation and non-recruitment, depending on the scope of activities and the state law involved. If non-recruitment and non-solicitation covenants are limited to only those employees/customers/suppliers with whom the departing employee had material personal contact, then a geographic scope provision probably is not needed.

3. Scope Of Activities

A complete restriction on working in any competing business in any capacity will be overbroad in most states and enforced only in connection with the sale of a business or possibly against upper-level management. It is usually permissible to prohibit a former employee from
working for a competitor in the same or similar type of job as the one held with the previous employer. A salesperson, for example, could be prohibited from working for a competitor as a salesperson, but not as a bookkeeper. And if an employee changes jobs, a new agreement should be executed to reflect that change.

The scope of activities to be prohibited by a non-disclosure agreement is fairly clear-cut. The employee is asked not to use or disclose to any other person any confidential information or trade secrets learned while working for the employer. The problem comes in defining what information is, in fact, confidential.

A court’s definition of “confidential” tends to be less inclusive than the typical employer's understanding of that term; the definition of a “trade secret” is stricter still. The mere knowledge that a person or company is a customer or supplier of the employer is not “confidential” in most cases; the buying history and habits of that customer probably are confidential. The ability of the employer to prove that particular information is “confidential,” and thus subject to a restrictive covenant, may depend to a great degree upon what efforts the employer has made to protect the information from disclosure to persons outside of the company. Thus, good security precautions have the benefit of not only preventing the information from leaving the company in the first place, but also help in litigation over a breach of a former employee's duty to keep the information confidential.

The scope of activities affected by non-solicitation and non-recruitment covenants is also fairly clear-cut. There are two issues, however, that often arise. First, there is a difference between agreeing not to solicit customers/employees with whom the former employee had direct contact, and those with whom the former employee never had any kind of relationship. The former category of restriction is much more likely to be enforced than the latter. If the covenant purports to restrict solicitation of persons or companies that have a relationship with the former employer but not directly with the former employee, then the covenant may be treated more like a general non-competition agreement which also requires a geographic scope restriction in order to be enforced. Second, it may not be possible to prevent the former employee from accepting business from, or hiring, former customers/employees if the employee subject to the covenant does not initiate the solicitation. In some states, it is not possible to prevent acceptance of unsolicited orders or employment applications. In fact, in a few states, provisions which purport to do this may invalidate the entire covenant.

4. Summary

Covenants for non-disclosure, non-recruitment of co-workers, and non-solicitation of customers/suppliers do not require a geographic component and are enforceable in most states if narrowly drawn. Particularly for salespersons, these agreements provide significant protection and greatly reduce the risk that the departing employee will take existing customers to a new employer. Although non-competition covenants offer the greatest protection within a limited geographic area, they must be carefully drafted based on the circumstances of each individual employee, and they should be reviewed periodically. Since non-competition covenants are also the most likely kind of covenant to be held overbroad by a reviewing court, an employer must carefully consider whether this risk is worth the added protection they offer.
C. **Set The Right Trap**

- Communicate to your employees what information you consider confidential.
- Mark this information as confidential, both hard copies and electronically.
- Have your employees sign enforceable confidentiality agreements that comply with the rules that apply for each state your company operates out of.
- Establish adequate physical and computer-based security measures, such as password protocols and anti-deletion programming.

D. **Secure The Target**

When an employee leaves, you must demonstrate reasonable efforts to secure your confidential information.

- conduct comprehensive exit interviews;
- remove employee’s access to the computer network;
- remove, duplicate or secure hard drives from company-issued laptop/desktop computers; and
- conduct an inventory of hard copy files.

III. **DEFEND YOUR MARKET SPACE**

A. **Fight For Your Customers By…**

1. Immediately identifying new accounts.
2. Assessing which customers who are most vulnerable and establishing in-person contact.
   a. Identify the low-hanging fruit.
   b. Look to contract expiration, ordering cycles and behaviors.
   c. Develop an incentive plan to retain business.
3. Sending correspondence to your customers announcing new account representatives.
   a. Remind customers why they do business with your company.
   b. Do not defame former employees.
B. **Follow The Script**

Instruct your remaining employees about fair communications and competition. Tell the customers about why they should do business with you, *not* why they should not do business with your ex-employee.

Make sure your employees do not discuss the circumstances of your ex-employee’s departure. And make sure your employees do not falsely accuse your ex-employee of wrongdoing.

C. **Play Detective**

You can help assure and maintain your position in the marketplace by:

1. Securing the back up tapes/drives of your company’s email and network servers.

2. Developing a forensic protocol for searching these back up tapes/drives.
   a. Identifying key search terms, such as customer names and contract and expiration/renewal dates.
   b. Identifying key email addresses where the ex-employee is likely to send information.
   c. Identifying and isolating emails with key attachments.

3. Identifying your internal forensic examiner.
   a. Should be someone with knowledge of the ex-employee’s customer relationships or book of business.
   b. This person will be responsible for reviewing the results of each search to identify key stolen information.

4. Identifying and interviewing “friendlies.”
   a. “Friendlies” are customers whom you believe would be willing to testify on your behalf as to your ex-employee’s activities.
   b. Focus is on the ex-employee’s use of your company’s confidential information and solicitation of the “friendlies.”

5. Identifying and communicating with current employees.
   a. Interview them about the ex-employee’s departure plans.
b. Interview them about any unusual activities by the ex-employee’s pre-departure.

IV. HOW TO EFFECTIVELY RESPOND TO POTENTIAL UNFAIR COMPETITION SITUATIONS

A. Be Clear On Your Business Objectives

1. Conduct a valuation of the business of risk to assist in establishing your litigation budget.

2. Evaluate your willingness to involve your customers in the litigation process.

B. Evaluate Pre-Litigation Options

   a. A minimum first step.
   b. Even where there is no “bad” conduct, still send a reminder of confidentiality obligations letter.
   c. Loss of element of surprise.

2. Demand Letter with Draft Complaint.
   a. Shows you have done your investigation and are ready to file suit if needed.
   b. Can be a very effective negotiating tool.
   c. Demand non-spoliation of documents.

3. Temporary Restraining Orders/ Preliminary Injunction.
   a. High reward/ high risk process.
   b. Must have evidence of violation of agreements or actual/threatened misappropriation.
   c. Must have your potential witnesses prepared to testify at preliminary injunction hearing.
   d. Focus your litigation goals.
      1. Return of confidential information.
2. Inspection of ex-employee’s computers and recovery of electronic information.

3. Prohibition on solicitation of customers.

4. Possible injunction against competing because of use of trade secrets.

C. Complete Your Forensics

Have your forensic examiner isolate key emails and attachments that demonstrate the ex-employee forwarded your company’s confidential information to his or her own personal email address, or to your competitors or customers.

D. Review And Evaluate The Enforceability Of Your Company’s Employment Agreements

1. Do not try to enforce illegal agreements or you will run the risk of unfair competition claims.

2. Where agreements are illegal, you must rely on proving theft of confidential information.

E. A Final Word On Confidentiality Agreements

Consider having provisions in your contracts with your customers and suppliers that require them to treat your information that you share with them as confidential.

F. Don’t Be Overzealous

1. Identify what you need to protect by examining how the employee can most likely damage your business/customer relationships.

2. Establish whether you want/need expedited discovery,
   a. It applies extreme pressure to the other side.
   b. It can be costly.
   c. It is a two-way street – you must be prepared to produce documents and witnesses, too.
   d. Look to see whether your own forensics are adequate to get preliminary injunction without it.

3. Consider the use of law enforcement.
a. Can be very useful to recovering company property.

b. Gives up control of the prosecution.

c. This is a major escalation of hostilities – consider whether you live in a glass house before you throw this stone – could your company be on the receiving end in a few months or years?

4. If you are successful in obtaining a Temporary Restraining Order or Preliminary Injunction:

a. Develop a communications plan to your employees.

b. Develop a communications plan to your affected customers.

c. Use the win as a training example to deter future theft.

V. A GUIDE TO ADVISING THE DEPARTING EMPLOYEE AND RECENT DECISIONS OF INTEREST

When called upon to advise an employee who is thinking of leaving his current position to work for a competitor it is critical for counsel to think the worst, to assume that the employee will do everything in the wrong way and to advise accordingly. This approach should be taken because it is the only way that you will be sure to provide adequate counseling and give comprehensive advice.

Most employees, including attorney employees, have every intention of doing things properly but very few of them have ever been schooled to know what is permitted and what is forbidden. For this reason it is common to find people making wholly innocent, but devastating, mistakes. Therefore, rather than assuming that the well educated and experienced executive will do things properly, you should have a detailed discussion with the departing employee and explain the reasoning underlying the various pieces of advice that you give.

In giving advice I recommend that all points be broken down so that they will be understood. By this I mean that we should avoid any tendency to believe that the person we are speaking to will appreciate the meaning of the words you are using in the manner that is intended. For example, instead of telling someone "do not to take any of the employer's documents on leaving" you should say, "do not take any originals, or copies, or electronic versions, or any part, of the employer's documents." This comprehensive direction will help keep the employee from being "cute" and finding an "innocent" way around the direction.

The employee should be cautioned that, as a general principle, the work done by the employee for the employer belongs to the employer. The employer paid the employee to render the work and now owns it. What this means is that notes, correspondence, think pieces, memoranda, sample forms, and the like are not the employee's to take. Rather, in the normal
course of events they belong to the employer. Thus detailed inquiry should be had with the employee so that specific questions as to particular items of property can be individually addressed.

When it comes to computers it is common for employees to believe that they have a right to copy whatever information they worked on. They think themselves entitled because it will help demonstrate their abilities to a new employer or that having the sample will facilitate their doing what they characterize as a "repetitive" task (such as drawing boiler plate language, or preparing contracts or advertising literature) at a new location. Employees also seem to think that they have a right to delete things from the computers they were working on before leaving.

The reality is that the employees were given access to the computers for the purpose of doing work on behalf of their employers. Thus, while a personal shopping list, or copies of letters the employee may have sent regarding his car or a stereo that was not working can probably be deleted, notes related to work, drafts of things the employee was working on, old marketing plans and the like should be left as they had been before the employee decided, or was told, to leave. One never knows what the employer may decide to be valuable and deletions are done at the employee's peril. The goal should be to take no tangible thing, such as a document or computer record, unless it is strictly personal. The farther afield the employee moves from this goal, the greater the danger.

Business opportunities that appear before the employee leaves are often tempting for the employee to want to take to the new venture. Likewise, the employee may want to plan to bid at the new employer's on work that he bid on while with the former employer. As well, the employee may want to let his clients or customers know where he is going so that plans can be made for the clients and customers to do business with him at the new location. All of this has to be inquired into because it is forbidden for the employee to do it and yet a natural instinct.

Employees owe a duty of loyalty to their current employers. What this means is that business opportunities that appear during the individual's employment belong to the employer and cannot be diverted. So too, if the employee made a bid for work on behalf of his prior employer then serious issues are raised if, at the new employer, he bids for it, because doing so will necessarily result in the employee using his prior knowledge to the detriment of the former employer. For the same reasons, the employer has a right not to have his employees encouraging his clients and customers to leave to do business with someone else.

Don't forget to ask the employee if he intends to try and have someone else leave with him. It is common for employees to want to have others leave at the same time because doing so may create a better bargaining position for the employee with the new employer. Depending on the circumstances such plans may be fine, or they may be problematic. Careful inquiry needs to be had as to: the employee's motivations for wanting to take someone else along; in what ways taking someone else along will work to the advantage of the new employer and the disadvantage of the old employer; whether trade secrets are involved; and how the idea of inviting others along arose - was it your client's idea or did it originate with the new employer, for example. The employee needs to be carefully counseled about pre-departure contacts with colleagues. Clearly, any such contacts about the new venture should not be made at work - during working time or on
the premises - if at all.

The departing employee should not be trying to harm the former employer; the solicitation of others should not be the result of the new company wanting to obtain a competitive advantage to the detriment of the former employer; and the preservation of trade secrets should be insured. All too frequently people are only thinking of themselves and they forget that seemingly simple actions can have serious consequences.

In circumstances where the employee has inside information regarding the prior employer, he should be counseled not to divulge that information because he may become responsible for any resulting harm. Likewise he should not use that information to the detriment of the prior employer. The question of whether an employee can use customer lists that he remembers but does not take an actual copy of, may vary by jurisdiction and should be carefully analyzed. In the first instance the employee should be told that before he uses or exploits information gained while with another employer that you should be consulted. By using the attorney before taking any questionable steps the employee will be safeguarded in the matter being inquired upon and will gradually learn how to himself apply your reasoning to his work situation.

All employees have information that their prior employer's will not want to have given to their competitors. Such information may encompass trade secrets, customer information, financial information of the prior employer etc. It is therefore important to have the employee detail for you the nature of the work he will be doing for the new employer, the kind of tasks he will be called on to perform and the data he will be analyzing. If it appears that the employee may be placed in a position by the new employer where he could violate obligations to his prior employer then steps need to be taken to avoid that. Such steps might include speaking with the new employer and getting a specific agreement that the employee will not be put in a conflicting position. In addition, you should counsel the employee regarding what constitutes a trade secret or confidential information, give concrete examples to the employee and explain why it needs to be kept confidential.

Care also needs to be taken during the interview process to insure that the new employer is not inadvertently given proprietary information belonging to the former employer. In an effort to ingratiate himself with, or to seem important to, the new employer it is natural to want to talk about the volume of business he did, the developments he made, or the successful tactics he employed. However, the employee has to be cautioned that he must not discuss the details of his former work where doing so will provide a competitive edge for the new employer. There is often a delicate balance between what is permissible and what is not. In such situations counsel would be well advised to insist on participating in the negotiations, and perhaps speaking to the new employer's counsel, all for the purpose of avoiding any potential problems.

There are times when the departing employee has an ownership interest in the prior employer. Such an interest may give rise to additional loyalty and even noncompete obligations to the prior employer. Therefore inquiry should be had regarding the nature of any ownership interest, what it means financially, and whether it caused the employee to have any special role with the prior employer, such as being on the board of directors or being an officer of the
company. In certain circumstances an employee selling his interest in a prior company may have a common law obligation not to compete.

**Some Recent Decisions - New York:**

**Scope of Enforceability - Effect of Pay During Noncompete Period:**

Covenants not to compete will be enforced if they are reasonably limited in time and scope, are necessary to protect the employer's interests, are not harmful to the public, and are not unduly burdensome (see *Battenkill Veterinary Equine v. Cangelosi*, 1 AD3d 856 [2003]; *Albany Med. Coll. v. Lobel*, 296 A.D.2d 701 [2002]). Here, the restrictive covenants are reasonably limited in time-nine months for Berry and eighteen months for Hall—and also in scope, inasmuch as they are limited to circumstances in which the employee terminates the employment relationship and, in that event, only bar the employee from affiliating with a direct competitor of plaintiff in the business of manufacturing rotating and stationary blades for axial compressors, steam and gas turbines and hot air expanders. The covenants are not unduly burdensome, inasmuch as they provide for continued payment of the employee's salary during the restricted period. Having concluded that the present conduct of Berry and Hall does not violate the restrictive covenant, the court has not considered whether it may be enforceable under other circumstances as necessary to protect plaintiff's legitimate interests. It bears noting that, inasmuch as payment of a former employee's salary during the restricted period is but an additional factor which may be considered in determining whether a covenant is reasonable (see *Maltby v. Harlow Meyer Savage*, 166 Misc.2d 481, 486 [1995], aff'd 223 A.D.2d 516 [1996], lv dismissed 88 N.Y.2d 874 [1996]; *Estee Lauder Cos., Inc. v. Batra*, 430 F Supp 2d 158, 180–181 [SDNY 2006]), the fact that the covenant at issue provides for continued salary payments to Berry and Hall does not require that it be enforced (see *Quandt's Wholesale Distribs. v. Giardano*, 87 A.D.2d 684 [1982], lv dismissed 56 N.Y.2d 805 [1982] [a covenant that is reasonable in scope and not unduly burdensome may be enforced only upon a showing that it is necessary to protect the employer's legitimate interests]).

**NY Disfavors Noncompetes - What is a Trade Secret?**

It is well established that agreements by an employee not to compete with his or her employer upon the termination of employment are judicially disfavored because “‘powerful considerations of public policy ... militate against sanctioning the loss of a [person's] livelihood’” (*Reed, Roberts Assoc. v. Strauman*, 40 N.Y.2d 303, 307, 386 N.Y.S.2d 677, 353 N.E.2d 590, rearg. denied 40 N.Y.2d 918, 389 N.Y.S.2d 1027, 357 N.E.2d 1033; see *Columbia Ribbon & Carbon Mfg. Co. v. A-I-A Corp.*, 42 N.Y.2d 496, 499, 398 N.Y.S.2d 1004, 369 N.E.2d 4). Thus, “[a] restrictive covenant against a former employee ‘will be enforced only

Here, plaintiff failed to establish that the information to which defendant was exposed during his tenure as plaintiff's “Vice President, Sales, Global and Strategic Accounts” qualifies as a trade secret or that specific enforcement of the employment agreement is necessary to protect plaintiff's legitimate interests (see Natural Organics, Inc. v. Kirkendall, 52 A.D.3d 488, 489-490, 860 N.Y.S.2d 142, lv. denied 11 N.Y.3d 707, 868 N.Y.S.2d 598, 897 N.E.2d 1083). Although plaintiff alleged that defendant downloaded confidential company documents after his termination, plaintiff failed to set forth evidence establishing that defendant misappropriated confidential information. Plaintiff also failed to establish that its customer lists, pricing information, and “product roadmaps” constitute trade secrets (see Buhler v. Michael P. Maloney Consulting, 299 A.D.2d 190, 191, 749 N.Y.S.2d 867; Briskin v. All Seasons Servs., 206 A.D.2d 906, 615 N.Y.S.2d 166; Walter Karl, Inc. v. Wood, 137 A.D.2d 22, 27, 528 N.Y.S.2d 94). Moreover, “mere knowledge of the intricacies of a business” does not qualify as a trade secret (Marietta Corp. v. Fairhurst, 301 A.D.2d 734, 739, 754 N.Y.S.2d 62).

Customer List - Enforcement?
Shaw Creations Inc. v. Galleria Enterprises, Inc. 29 Misc.3d 1213(A), 918 N.Y.S.2d 400 (Table) (Sup. Ct. NY. Cty., 2010).

A customer list will be not be treated as a trade secret where the information contained in the list is readily ascertainable from nonconfidential sources. Ronald W. Freeman P.C. v. Zhu, 209 A.D.2d 213 (1st Dept 1994). A contact list based on knowledge of the industry and on information publically available does not qualify as a trade secret. Buhler v. Maloney Consulting, 299 A.D.2d 190, 191 (1st Dept 2002). But where the names and addresses of the customers are not known in the trade or can only be obtained through effort, the customer list will be treated as a trade secret. See Stanley Tulchin Assoc., v. Vignola, 186 A.D.2d 183, 185 (2d Dept., 1992). This is especially so where the customers' patronage had been secured by years of effort and advertising effected by the expenditure of substantial time and money. Leo Silfen Inc. v. Cream, 29 NY2 387, 393 (1972). The proponent of trade secret status for a customer list must show that it “employed precautionary measure[s] to preserve” the list as a secret. Precision Concepts Inc. v. Bonsanti, 172 A.D.2d 737, 737 (2d Dept 1991).

Employee Duty of Loyalty - Post-Employment Solicitation

“'[A]n employee owes a duty of good faith and loyalty to an employer in the

“Further, [s]olicitation of an entity's customers by a former employee or independent contractor is not actionable unless the customer list could be considered a trade secret, or there was wrongful conduct by the employee or independent contractor, such as physically taking or copying files or using confidential information” (Starlight Limousine Serv. v. Cucinella, 275 A.D.2d 704, 705, 713 N.Y.S.2d 195; see Walter Karl, Inc. v. Wood, 137 A.D.2d 22, 27, 528 N.Y.S.2d 94; see also Leo Silfen, Inc. v. Cream, 29 N.Y.2d 387, 391–392, 328 N.Y.S.2d 423, 278 N.E.2d 636). “The use of information about an employer's customers which is based on casual memory is not actionable” (Levine v. Bochner, 132 A.D.2d 532, 533, 517 N.Y.S.2d 270; see Anchor Alloys v. Non–Ferrous Processing Corp., 39 A.D.2d 504, 507, 336 N.Y.S.2d 944; see also Leo Silfen, Inc. v. Cream, 29 N.Y.2d 387, 328 N.Y.S.2d 423, 278 N.E.2d 636).

Non-Solicitation Case Not Proven: 

Defendants met their burden of demonstrating prima facie that they did not breach Dillmann's non-compete and non-solicitation agreements with plaintiff after Dillmann left plaintiff for a job with defendant Aon (see generally BDO Seidman v. Hirshberg, 93 N.Y.2d 382, 690 N.Y.S.2d 854, 712 N.E.2d 1220 [1999]. Only one administrative employee joined Dillmann at defendant Aon, and plaintiff hired a replacement for her. Defendants submitted evidence that a client, Frank Russell Investments, moved its business to Aon for reasons unrelated to Dillmann's move. Russell chose Aon after soliciting a request for proposals (RFP) because of concerns about plaintiff and a connection between executives at the two firms. Dillmann provided no assistance to Aon, which responded to the RFP before Dillmann was retained and had prepared its proposal before Dillmann joined the firm. In opposition, plaintiff presented unsubstantiated assertions and speculations, which are insufficient to raise a triable issue of fact. As for one
client that Dillmann actively solicited after leaving plaintiff, defendants demonstrated that plaintiff had no legitimate protectable interest in that client. The client was developed by Dillmann independently and without assistance from plaintiff (see BDO Seidman, 93 N.Y.2d at 392, 690 N.Y.S.2d 854, 712 N.E.2d 1220; Weiser LLP v. Coopersmith, 74 A.D.3d 465, 902 N.Y.S.2d 74 [2010]).
Do’s And Don’ts Of Confidentiality And Non-Compete Agreements

**DO**

1. Do develop a comprehensive definition of what constitutes your company’s confidential and trade secret information.

2. Do require all employees to sign a properly tailored confidentiality agreement that prohibits disclosure of confidential information.

3. Do have an anti-solicitation agreement that prohibits your former employees from soliciting your clients by utilizing your confidential information.

4. Do have an anti-solicitation agreement that prohibits your former employees from soliciting your employees to leave their jobs to go to work for a competitor.

5. Where appropriate, in states that will permit it, do have a covenant not to compete that restricts an employee from working for your competitors.

6. Do have an agreement that contains a severability provision that permits a court to remove any improper provisions in your agreements.

7. Do have an agreement that requires the return of all confidential information upon separation from employment and require employees to sign a termination certificate declaring that all information has been returned during their exit interview.

8. In the event of violation by a former employee of the confidentiality agreement, do move quickly to obtain a temporary restraining order/preliminary injunction.

9. Do educate your employees about the confidentiality required of them towards your confidential information. Remind them at least annually.

**DO NOT**

1. Don’t use an agreement that is overly broad.

2. Don’t have an unreasonably long period of time on your non-compete or anti-solicitation provisions (typically no more than one or two years).

3. Don’t defame former employees to customers or anyone else.

4. Don’t seek injunctive relief against a former employee unless you have some evidence to establish actual or threatened solicitation of your customers or unauthorized use of your confidential information.