

PROTECTING YOUR TRADE SECRETS

PART II



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Imagine one of your employees leaves for the competition or starts their own competing business with your market strategies or ideas for new products. What could you have done to protect your company and what should you do? This article is the second in a two-part series. Last month's

edition, dedicated to manufacturing, we discussed what trade secrets are and how to protect them from being misappropriated by competitors. In this edition, focusing on human resources, we discuss ways of protecting trade secrets from being misappropriated by employees.

RECAP OF A "TRADE SECRET"

A trade secret consists of any valuable formula, pattern, device, process or other information that is used in your business and gives you a competitive advantage over your competitors who do not know or use the information. Not every bit of confidential, proprietary or valuable information is a trade secret. Information that is publicly available or not acquired in confidence is not considered a trade secret. Most importantly, the information must be the subject of reasonable efforts to maintain its secrecy.

BEFORE EMPLOYMENT

If you know that a new employee will have access to trade secrets, require him or her to sign a confidentiality agreement that states they agree to maintain the secrecy of your company's trade secrets. Also, consider having the employee sign a covenant not to compete. Non-compete agreements (or "restrictive covenants") are often included in new employee contracts. The agreements are designed to prevent employees from using trade secret or confidential information from one employer and passing it onto competitors

or using the information to start their own company.

A new employee may balk at signing a contract containing a confidentiality or non-compete clause. The agreement could restrict their ability to pursue future employment. However, from the employer's perspective, the agreement is necessary and vital to any business trying to protect its trade secrets or other intellectual property assets.

The agreement needs to be carefully crafted in order to be enforceable in court. The agreement requires a fair and reasonable scope, duration, and geographic limitation. The reasonableness of the agreement and its enforceability will vary on a case-by-case basis.

At minimum, the agreement should state the type of trade secrets and confidential information that your company seeks to protect, the duration of the non-compete period (usually no more than one or two years), and a geographic restriction that is reasonable to protect your business. For example, if you operate a regional business, but place a nationwide non-compete clause in the agreement, it probably won't be enforceable.

DURING EMPLOYMENT

Even if you had your employees sign a confidentiality or non-compete agreement, you still need to maintain the secrecy of the trade secret. Access to the information should be limited to a need-to-know basis. Failing to keep the trade secrets secret may render the agreement useless. Allowing customers or the public access to the trade secret is just one example of how your own actions may void the agreement between your company and its employee.

Getting existing employees to sign, and being able to enforce, such agreements is a bit trickier. Most of these confidentiality or non-compete agreements are entered into before or at the start of the employment relationship. If you want to add these terms to the existing employment relationship, there should be an exchange of some additional adequate consideration for the non-compete or non-disclosure obligations.

If the existing employee is simply an at-will employee, meaning having no employment contract, continued employment may be ade-

quate consideration for the additional obligation. If the employee has a contract, this additional obligation will become a matter of more complex negotiation and should be handled with advice from experienced legal counsel.

AFTER THE EMPLOYMENT RELATIONSHIP

If you did not get a non-compete or non-disclosure agreement during the employment relationship, it does not mean that you cannot negotiate one at termination. If you will be paying the employee anything more than you legally owe him or her, you may be able to condition the "separation bonus" on them signing an agreement to maintain the trade secret as confidential and to provide you with a written assurance that he or she no longer has any confidential or trade secret material. You will probably want to discuss that with your attorney as well.

Employees who ignore their confidentiality or non-compete agreements and sign with a competing company can be sued for breach of contract if the employee is using the previous employer's confidential information at the new job. The new employer can also be sued for interfering with a contractual relationship between the former employer and its former employee. If you are hiring new employees, particularly executives or even middle managers, you should always ask about the existence of any confidentiality or non-compete agreement.

Non-compete and confidentiality agreements are effective tools for protecting your valuable investment in training your employees on your business processes, technology and customer relationships. When drafted carefully with the assistance of an experienced attorney, you can take comfort in the fact that most courts are willing to enforce reasonable restrictions.

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