



201 Keeping the Company's Secrets: Protecting Proprietary Information

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Mr. Conant is a member of ACC's board of directors, and has also been on the board of directors for ACC's San Francisco Bay Chapter for more than 10 years. He is a past president of that chapter.

Mr. Conant received a B.A. from the University of California at Berkeley and his J.D. from Hastings College of Law.

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Sheldon N. Sandler is a partner at Young Conaway Stargatt & Taylor, LLP in Wilmington, Delaware. He pioneered the specialty of labor and employment law in Delaware. He founded Young Conaway's employment law department in 1981, and it has since become Delaware's largest labor and employment law department, and is rated number one in Delaware by Chambers USA. Mr. Sandler's prominence in the field has been recognized repeatedly. Chambers USA named him Delaware's leading Employment Lawyer representing Defendants in its 2003, 2004, and 2005 editions, and Who's Who Legal, a UK publication, named him as 1 of 298 "experts in labour and employment law" internationally who "are considered to be the pre-eminent in the field." He was the only Delaware lawyer so honored. He has also been listed in The Best Lawyers In America for twenty years.

At the 2004 ABA convention, Mr. Sandler became the first Delaware lawyer inducted as a Fellow of the College of Labor and Employment Lawyers. Election as a fellow is described as "the highest recognition by one's colleagues of sustained outstanding performance in the profession, exemplifying integrity, dedication and excellence."

Mr. Sandler is a graduate of the University of Michigan and of the Law School of the University of Pennsylvania. He also holds the degree of Masters of Laws in Labor Law from Temple University.

**EVERYTHING CORPORATE COUNSEL NEEDS TO KNOW
ABOUT PROTECTING PROPRIETARY INFORMATION**

**By Sheldon N. Sandler and John W. Shaw, Young Conaway Stargatt & Taylor, LLP, and
Donald E. Conant, Xilinx, Inc.**

THE GOOD OLD DAYS

A few years ago, the primary focus of every employer seemed to be how to attract and maintain the best and brightest among a very shallow labor pool during a period of increased employee mobility. After the internet bubble burst, employers often found themselves trying to unload the same highly-paid individuals they had recruited. But these business cycles come and go, and while we are in a less frenetic phase, steps can be taken more methodically to improve practices that will aid in preserving and protecting proprietary information over the long term.

There are a number of practical steps that employers can take to deter or prevent altogether the loss of valuable business assets through a departing employee. During this session we will examine the statutory and common law arsenal available to employers who desire to protect themselves from unfair competition and the loss of valuable proprietary information.

**TRADE SECRETS AND CONFIDENTIAL INFORMATION PRIMER:
WHAT DO YOU WANT TO PROTECT?**

The Uniform Trade Secrets Act, (UTSA), adopted by a majority of states (including Delaware, *see 6 Del. C. § 2001, et seq.*), but not New York or New Jersey, defines a trade secret as follows: information, including a formula, pattern, compilation, program, device, method, technique, or process that (1) derives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use; and (2) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

Courts in some states such as New York, where the UTSA has not been enacted, have adopted the Restatement of Torts definition of trade secret: "any formula, pattern, device or compilation of information that is used in one's business, and that gives one an opportunity to obtain an advantage over competitors who do not know or use it." *Restatement (First) of Torts*, § 757 comment b (1939).

To establish the existence of a trade secret, two threshold tests must be met. First, the information must "derive independent economic value" from not being "generally known" or "readily ascertainable by proper means." *6 Del. C. § 2001*. Accordingly, while your client may consider some or all of its business information to be worthy of Code Red security measures, it will only rise to the level of a trade secret if it provides a business with a tangible competitive edge. Interestingly, the wayward former employee's intention to use the information may prove to be compelling circumstantial evidence of its economic worth; the individual would not have used the information had he not considered it to have business value. *See Surgidev Corp. v. Eye Technology, Inc.*, 828 F. 2d 452, 456 (8th Cir. 1987).

Any plaintiff must also meet the second part of the definitional test: that reasonable efforts were made to maintain the secrecy of the information claimed to be a trade secret. *6 Del. C. § 2001*. It is clear that the measures taken to ensure confidentiality need not be "extreme and unduly expensive procedures." The efforts taken to ensure the secrecy of the information must simply be reasonable under the circumstances.

Unfortunately, excessive caution can be too much of a good thing. For example, if an employer affixes notices to only certain sensitive documents, the misappropriating employee may claim the employer did not consider information in the unmarked materials confidential. Conversely, if an employer covers everything with confidentiality warnings, it diminishes the credibility of its efforts, as it is arguably impossible to determine what is truly confidential information. One way around this problem is to identify the protected information in a confidentiality agreement, while acknowledging that the use of markers and notices is limited to specific classifications of sensitive materials.

The UTSA authorizes the enjoining of actual or threatened misappropriation of trade secrets. "Misappropriation" occurs in the following ways:

- The trade secret is acquired by a person who knows or has reason to know that it was acquired by improper means. "Improper means" is further defined as including "theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means." *See, e.g., 6 Del. C. §2001 (1) and (2)(a); or*
- A trade secret is disclosed or used by a person who used improper means to obtain the information or who, at the time of disclosure, knew or had reason to know that it was acquired through improper means by someone who had a duty to maintain the secrecy of the information. Similarly, the Act prevents someone from using a trade secret if he knows that it was acquired by accident or mistake. *6 Del. C. §2001 (2)(b).*

Some courts have held that the protection of trade secrets does not extend to possession or knowledge of the information but only to use, disclosure or improper acquisition. *See Electro Optical Industries, Inc. v. White*, 76 Cal. App. 4th 653, 661 (1999), *decertified* 2000 Cal. LEXIS 3536, April 12, 2000. *But see, E.I. duPont de Nemours and Co. v. American Potash & Chemical Corp.*, Del. Ch., 200 A.2d 428, 436, Seitz, C. (1964) (holding that a preliminary injunction prohibiting the defendant from undertaking employment may be granted if the employment would require the defendant to disclose the plaintiff's trade secret information); *see also, Copi of Delaware, Inc. v. Kelly*, Del. Ch., C. A. No. 14529, 1996 Del. Ch. LEXIS 136, at *22, Steele, V.C. (Oct. 25, 1996) (permanent injunction issued to enforce an employment agreement containing restrictive covenants relating to trade secrets).

The Delaware Court of Chancery has also focused on whether there has been improper disclosure of the trade secret. *Wilmington Trust Co. v. Consistent Asset Mgmt. Corp.*, Del. Ch., C. A. No. 8867, Allen, C. (March 25, 1987).

In general, it can be said that there is a continuum measuring the states' attitude toward protecting proprietary information, with California and Georgia on one side, as the states least

likely to provide protection and most disposed to allow employees to engage in unfettered competition, and Delaware on the other side, allowing protection where the limitations imposed are reasonable, while still closely scrutinizing the applicable facts and equitable considerations.

In *American Credit Indemnity Co. v. Sacks*, 213 Cal. App. 3d 622, 635-37 (1989), the court held that, even if a customer list rises to the level of a trade secret, it may still lawfully be used by a former employee to announce his or her new employment. The court reasoned that restrictions on a former employee's ability to announce a new business affiliation would unlawfully impair the right to engage in fair competition. *Id.* The court further held, however, that an employee might be properly enjoined from using a trade secret customer list to ask, petition, endeavor to obtain or appeal for business. *Id.*; cf. *Original Vincent and Joseph, Inc. v. Schiavone*, Del. Ch., 134 A.2d 843 (1957)(enjoining use of customer list).

Delaware has also recognized as trade secrets strategic plans and proposals, *American Totalisator Co., Inc. v. Autotote Ltd.*, Del. Ch., C.A. No. 7268, Longobardi, V.C. (Aug. 18, 1983), and manufacturing processes. *Miles v. Cookson America, Inc.*, Del. Ch., C.A. No. 12,310, Hartnett, V.C. (Nov. 15, 1994).

Generally speaking, courts are reluctant to protect customer lists to the extent they embody information which is readily ascertainable through public sources, such as business directories. On the other hand, where the employer has expended time and effort identifying customers with particular needs or characteristics, courts will prohibit former employees from using this information to capture a share of the market. Such lists are to be distinguished from mere identity and locations of customers where anyone could easily identify the entities as potential customers. As a general principle, the more difficult the information is to obtain, and the more time and resources expended by an employer in gathering it, the more likely a court will find such information constitutes a trade secret. Courts have found a customer list to constitute a trade secret where the list is found to have independent economic value, which can be shown in part by the fact that the identity of the clients is not generally known to the industry. It must also be shown that reasonable efforts were made to protect the confidentiality of the list by way of limiting circulation of the list, such as by advising employees through an employee handbook that the company considers the information valuable and confidential.

MANAGING YOUR PEOPLE, YOUR INFORMATION, AND YOUR SURROUNDINGS TO PREVENT DISCLOSURE OR MISAPPROPRIATION OF YOUR CONFIDENTIAL INFORMATION AND TRADE SECRETS

While illegal misappropriation or disclosure of your trade secrets and confidential information can and does occur, often this information is given away by unwary and unsuspecting employees. Because one loose lip literally can sink a corporate ship, persistent, consistent vigilance and monitoring of information must be made a part of every company's operations. Broadly speaking, there are three main areas where your company is vulnerable to information leaks.

Managing Your People

Your employees are your single greatest source of leaks. You, no doubt, have (or should have) spent a great deal of time training your employees regarding the ways in which you do

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business. In addition, you necessarily have provided them with the information and knowledge they need to perform their jobs. However, do they really comprehend the nature and value of the information entrusted to them? Do they know how to keep it confidential? Experience shows that many do not and that many disclosures occur, not out of malice or intent to harm, but out of carelessness or simply not knowing any better.

In addition to your employees, numerous other people come into contact with your business information daily - suppliers, customers, and contractors. These people have even less incentive to understand the value of your information and to keep it secret. What to do?

Hiring Practices - Background Checks

This is the most effective method, because it can stop potential problems before they ever become actual problems. In addition, this has both offensive and defensive applications. You can determine who does and does not share your philosophy or respect for trade secrets and confidential information. You can also tell which potential employees, consultants, and other contractors may have confidential information belonging to your competitors, allowing you to provide a clear message that your company respects the confidential information of other companies and that bringing in secret information will result in termination of the relationship. Remember, confidential information is a double-edged sword: today's plaintiff may be tomorrow's defendant. The trick is to avoid becoming either!

Making And Enforcing Secrecy Agreements

Covenants Not To Compete

Employers often attempt to obtain an employee's agreement not to engage in post-employment competition through the use of a non-competition "insurance policy." Unfortunately, these so-called restrictive covenants are narrowly scrutinized by reviewing courts or even prohibited by statute. As a general proposition, covenants not to compete have long been disfavored in the law for two reasons. First, "robust and uninhibited competition should not give way merely because a particular employer wishes to insulate himself from competition." *American Broadcasting Co. v. Wolf*, 52 N.Y.2d 394, 404, 420 N.E.2d 363, 368 (1981). Second, there are "powerful considerations of public policy which militate against sanctioning the loss of a man's livelihood". *Purchasing Assoc's, Inc. v. Weitz*, 13 N.Y.2d 267, 272, 196 N.E.2d 245, 247 (1963).

The New York formulation of when a covenant not to compete will be enforceable, which adopts a middle-ground approach, has been stated as follows: An enforceable covenant must be "reasonably limited in scope and duration, and only 'to the extent necessary (1) to prevent an employee's solicitation or disclosure of trade secrets, (2) to prevent an employee's release of confidential information, or (3) in those cases where the employee's services to the employer are deemed special or unique.'"* *Earthweb, Inc. v. Schlack*, 71 F. Supp.

* "Unique and extraordinary" really means to refer to very special talents, and most commonly includes actors, musicians and professional athletes, and not merely skilled and valuable employees.

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2d 299, 312 (S.D.N.Y. 1999), *aff'd* 2000 U.S. App. LEXIS 1254 (2d Cir. Jan. 31, 2000) (quoting *Ticor Title Ins. Co. v. Cohen*, 173 F.3d 63, 70 (2d Cir. 1999). See also *BDO Seidman v. Hirshberg*, 93 N.Y.2d 390, 392, 712 N.E.2d 1220, 1225 (1999) (holding that an anti-competitive covenant constituted a restraint that was greater than was needed to protect legitimate interests).

In California, Cal. Bus. & Prof. Code § 16600, *et seq.*, provides that, in the absence of a statutory exception, "every contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void." The judicially recognized right of an employee to use the skills and general knowledge gained during employment to compete with the former employer supports this statutory declaration. The general rule in California is that noncompetition agreements are unenforceable unless made pursuant to the sale of a business, sale of a shareholder's stock or dissolution of a partnership. The courts will not reform a noncompetition agreement even when the agreement invites a court to do so in order to validate it. The California courts view an employee's covenant not to solicit the former employer's customers as a noncompetition covenant and will treat it as void except where enforcement is necessary to protect trade secrets. *Moss, Adams & Co. v. Shilling*, 179 Cal. App. 3d 124, 130 (1986); *Thompson v. Impaxx, Inc.*, 113 Cal. App. 4th 1425, 1429 (2003).

Georgia is another state that regards restrictive covenants with extreme disfavor. The slightest misstep in draftsmanship typically results in the entire provision being struck down as an unlawful restraint of trade. *American Gen. Life & Accident Ins. Co. v. Fisher*, 430 S.E.2d 166, 168 (Ga. Ct. App. 1993). Despite the absence of a statute regulating the area currently, the Georgia courts are very creative in finding ways to apply that state's public policies to invalidate covenants. In *Hulcher Svcs., Inc. v. R.J. Corman Railroad Co.*, 543 S.E.2d 461 (Ga. Ct. App. 2000), it appeared that the employer had won the race to the courthouse. It obtained an interlocutory injunction from a federal district court in Texas enforcing its restrictive covenant against a former employee. *Id.* The next day, the Georgia state court in which the employee filed suit held a hearing and issued a final judgment invalidating the covenant, and the Georgia Court of Appeal affirmed. *Id.* It pointed out the concurrent jurisdiction of the two courts, the lack of finality of the Texas order, and the strong Georgia public policy against the enforcement of restrictive covenants. *Id.*; see also, *Enron Capital & Trade Resources Corp. v. Pokalsky*, 490 S.E.2d 136 (Ga. Ct. App. 1997) (applying Georgia law to invalidate covenant between Texas company and Texas employee); *Kovanic v. Globespan, Inc.*, 2000 WL 33174414 (E.D. Cal. 2000) (employee who accepted a position in New Jersey with successor to his employer and signed noncompete agreement changed his mind and was later hired by a California company. He sued in California to invalidate the agreement and obtained an injunction against enforcement of the agreement.)

In the *Hulcher* case, the court did identify a way for employers to gain some protection. It noted that Georgia generally recognizes forum selection clauses in employment agreements. 543 S.E.2d at 465 (citing *Iero v. Mohawk Finishing Prods., Inc.*, 534 S.E. 2d 136 (Ga. Ct. App. 2000). Because Delaware courts take a more balanced view of restrictive covenants, forum selection clauses often name Delaware as the forum to litigate such disputes. See, e.g., *Copi of Delaware, Inc., id.* Delaware is one of the few states that treats continued employment of an employee at will as sufficient consideration for a restrictive covenant. *Research & Trading Corporation v. Pfuhl*, 1992 Del. Ch. LEXIS 234, *23 (Nov. 19, 1992); *Research & Trading Corporation v. Powell*, 468 A.2d 1301, 1305 (Del. Ch. 1983). *Accord, Central Adjustment Bureau, Inc. v. Ingram Associates, Inc.*, 622 S.W.2d 681, 685 (Ky. App. 1981) (noncompete

agreement need not be supported by independent consideration if the employee enjoys continued employment for an appreciable period of time after signing). *Cf., Poole v. Incentives Unlimited, Inc.*, 548 S.E.2d 207, 209 (S.C. 2001)(continued employment of an at will employee is insufficient consideration for a non-compete agreement in South Carolina).

Other states that are extremely reluctant to enforce restrictive covenants include Oklahoma (noncompetition provisions are void and unenforceable – Okla. Stat. tit. 15, § 219A (2001)), Colorado (noncompetition provisions are void except in limited circumstances. Colo. Rev. Stat. § 8-2-113 (2004); *Atmel Corp. v. Vitesse Semiconductor Corp.*, 30 P.3d 789, 794 (Colo. App. 2001)), Montana (Mont. Code Ann. § 28-2-703-05 (2004); *cf., Dumont v. Tucker*, 822 P.2d 96, 98 (1991) (upholding use of blue pencil approach)), Nebraska (if any portion is unenforceable, the entire agreement is void. *Moore v. Eggers Consulting Co.*, 562 N.W.2d 534, 542 (1997)) and Wisconsin (Wis. Stat. § 103.465 (only enforceable when limited to a specific territory and time and reasonably necessary for the protection of the employer; no blue-pencilling)).

While Delaware courts will enforce reasonable restrictive covenants, *Copi, id., Delaware Express Shuttle v. Older*, 2002 Del. Ch. LEXIS 124 (Oct. 23, 2002), those that are contained in an employment contract as opposed to a contract for the sale of a business will be "subject to somewhat greater scrutiny." *Faw, Casson & Co. v. Cranston*, Del. Ch., 375 A.2d 463, 465 (1983). The specific facts and circumstances relating to both the elements of the agreement and the equities of the situation will be reviewed. *Sapp v. Casey Employment Services, Inc.*, Del. Ch., 1989 Del. Ch. LEXIS 150, at *10-*11 (Nov. 3, 1989). See generally, *Research & Trading Corporation v. Pfuhl*, 1992 Del. Ch. LEXIS 234, Allen, Ch. (Nov. 18, 1992). On occasion the Delaware courts have even looked beyond the fact that an agreement contained no geographic restriction and imposed a reasonable one. *Delaware Express Shuttle, id.* at *45-*53.

Other states that are willing to enforce reasonable restrictive covenants include Connecticut, *Weiss and Associates, Inc. v. Wiederlight*, 546 A.2d 216, 219 (1988), Illinois, *Prairie Eye Ctr., Ltd. v. Butler*, 768 N.E.2d 414, 421-22 (Ill. App. 4th Dist. 2002) (noncompetes must be reasonable in regard to time, territory and activity restrictions), Kentucky, Michigan, Mich. Comp. Laws § 445.774a (2005) (reasonable duration, geography and type of employment or line of business), Pennsylvania, *Hess v. Gebhard & Co.*, 808 A.2d 912, 917 (2002) and Texas (Bus. & Com. § 15.50) (must be ancillary to an otherwise enforceable agreement that is reasonable as to geographic and activity scope, and duration of time).

Among the legitimate interests that have been afforded protection in most states is the employment relationship with the customer. Throughout their employment, employees may develop significant rapport with valued customers. The retention of these customers may be a "protectable interest." The restrictions are particularly compelling where the employee's personalized contact with a customer is the only manner by which the identity of the employer is made known.

The courts will also set strict limits on the geographic scope of such a restrictive covenant. Generally, the geographic limits of the covenant must be consistent with the territorial scope of the former employee's duties.

A model Non-competition Agreement follows with **drafting instructions and analysis for each section.**

MODEL EMPLOYMENT/NON-COMPETITION AGREEMENT

[Company Name]

Employee's Last name	First name	Initial
Region or Department		
Employee's location		

In consideration of his or her employment, promotion, salary or benefit increase, bonus or transfer by the Company (as defined below) and the compensation to be paid by the Company for Employee's services, Employee hereby acknowledges that he or she understands and agrees that the provisions hereof are part of his or her employment with the Company.

*Annotation: Note that this is a comprehensive employment agreement. By including the non-competition provisions within a more general contract, the employer will be able to argue that there was more than adequate consideration for the employee's non-competition obligation. Moreover, in those jurisdictions that require more than simple at-will employment as consideration for a non-competition agreement (Texas, for example,) an employer can build in additional benefits, money, etc., to provide the consideration necessary to make a binding non-competition agreement with an employee. Note that Delaware cases have held that continued employment is sufficient consideration to support a covenant not to compete. See, Sapp, id. at *13.*

1. DEFINITIONS

As used herein, "the Company" shall mean [] and/or any of its affiliated corporations and entities; "Client" shall mean any person or entity with whom the Company conducts business or from whom the Company or Employee obtains information including, but not limited to, customers or suppliers; "information" shall mean any information or knowledge, including matters of a technical nature such as know-how, formulae, secret processes or machines, inventions, studies, research protects, development plans and matters of a business nature, such as information about costs, profits, sales, markets, customer lists, customer requirements and other data not available to the public; and "employment" shall mean employment for hourly wages, for salary, or as a consultant.

Annotation: The sample definition provided above does not differentiate between mere "confidential information" and the more protectable "trade secrets" of a given employer. This definition is appropriate for use in those more lenient jurisdictions (such as Delaware) that

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recognize all proprietary information as a protectable interest of the company; i.e., that it is an interest that may support enforcement of a non-competition or non-disclosure agreement against a competing former employee. Note also that we are including third-party (i.e., client) information with respect to which the company has been asked to maintain confidentiality, within the definition of protected information; this will ensure that third-party confidentiality obligations are not inadvertently breached.

2. NATURE OF EMPLOYMENT

The parties recognize that the business of the Company and the nature of Employee's employment will permit Employee to have access to information of the Company and its Clients, that such information is the property of the Company and/or its Clients, and that any unauthorized disclosure thereof may be highly prejudicial to their interests. The parties further recognize that Employee may, during the term of his or her employment, make discoveries, inventions, contributions or improvements.

Annotation: This provision sets the stage for the agreement: that both sides have a "meeting of the minds" as to the nature of the disclosures that will, of necessity, be made to the employee during the course of his or her employment.

3. CONFIDENTIAL INFORMATION

During and after his or her employment with the Company, Employee will not disclose, use, or appropriate any information for his or her own use or for the use of others, except as has been expressly permitted in writing by an authorized representative of the Company. Employee shall not remove any writings containing information from the premises or possession of the Company or its Clients unless employee has obtained express authorization in writing by the Company to do so.

Furthermore, Employee will deliver promptly to the Company on termination of such employment, or any time the Company makes a request, all copies of writings containing information which Employee may possess or have under his or her control.

Annotation: This section provides the basic non-disclosure language. The employee will be required to keep any information acquired on a confidential basis, and he has to give up any materials that may contain such information at the end of his employment. While this can (and should) also be required in your personnel policies, this provision provides the force of contract and is a stronger deterrent to any employee that may be thinking of leaving with proprietary information.

4. INTELLECTUAL PROPERTY ASSIGNMENT

Employee will treat as belonging solely and exclusively to the Company or the Company's nominee, and will fully and promptly disclose and assign to the Company without additional compensation, any discovery, concept, idea, invention, program, system, process, procedure, technique, specification, expression, hardware, software (including source and object code), or data base, along with any and all enhancements, upgrades, or improvements thereto, whether or not patentable, copyrightable, constituting a trade secret, or otherwise entitled to protection under any intellectual property law, whether or not patentable or subject to any form of intellectual

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property protection, which in any way relate to the Company's business or interests or which result from tasks assigned to Employee by the Company, and which, while Employee is so employed, are made, conceived or reduced to practice by Employee, alone or with others, during or after usual working hours, either on or off Employee's job. Employee hereby conveys, transfers, assigns, and agrees to convey, transfer, and assign, to the Company or to any party designated by the Company Employee's entire right, title, and interest in all Developments, whether or not such Developments are reduced to practice during the time Employee is employed by the Company and any work subject to the protection of the United States Copyright laws made or contributed to by Employee, to the extent such a work is not found not to be a Work Made for Hire. Employee agrees, at the Company's expense at any time during or after such employment, to sign all papers and do such other acts and things as the Company may reasonably require of Employee to protect the Company's right to said ideas, discoveries, inventions, contributions and improvements, including applying for, obtaining and enforcing patents thereon in any and all countries.

Annotation: This important provision helps to perfect title in intellectual property in the corporation and avoids any confusion that might result from any inventions that employees create on their own time, away from work and not using company materials. In short, if it relates to the company's business, the intellectual property belongs to the company. Note, however, that some jurisdictions offer protections to employee-inventors. Note also that the Copyright and Patent statutes require assignments to be in writing. Finally, employers may wish to add a limited terminal period to protect against inventors leaving employment and 'inventing' a key business technology shortly afterwards.

Even under a statute that protects employee inventions, however, the employee cannot invent a product that relates to her current employer's business and expect that it will belong to her. If an employee creates something that relates to the employer's current product line or is a product related to the industry of the employer, then the employer will own the rights to that invention.

5. RESERVED INVENTIONS

Attached to this document is a complete list of all inventions, if any, patented or unpatented, presently owned by Employee, including a brief description thereof, which were conceived or made wholly or in part by Employee prior to Employee's employment by the Company and which Employee wishes to exclude from this Agreement.

Annotation: Make sure you get a list of the employee's inventions at the time of hire to avoid any later arguments over who owns what.

6. EXISTENCE OF ANY CONFLICTING AGREEMENT

To the best of the Employee's knowledge, there is no other contract to assign inventions that is now in existence between Employee and any other person, corporation or partnership unless Employee has so indicated on an attachment hereto and unless a copy of any such other contract is also attached hereto.

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7. CUSTOMER SECRECY

During the course of his or her employment with the Company, Employee may acquire knowledge of confidential information relating to the Company's customers. The Company considers the identity of its customers, the contact person of said customer or Client, and/or the financial information related to business conducted between said customer/Client and the Company to be trade secrets of the Company.

To safeguard the Company's proprietary interest in such information, it is agreed that Employee will not, without the express written consent of a Corporate Officer of Company, for a period of one year immediately following Employee's termination of employment with the Company for any reason, either directly or indirectly, call upon, solicit, divert or take away, or attempt to solicit, divert or take away any customers, business or patrons of the Company upon whom Employee called or whom Employee serviced or solicited or with whom Employee became acquainted as a result of employment with the Company.

Annotation: In this paragraph, we further identify customer lists identifying account information, etc. - to be not only confidential information, but an actual "trade secret" of the company. This attempts to take advantage of case law holding that a party may contractually agree to confidential status for information not otherwise entitled to protection as a trade secret. After identifying the information, thereby providing notice to the employee of the company's position, the provision creates a nonsolicitation obligation on the part of the employee. As nonsolicitation agreements are less restrictive than non-competition agreements (because they allow an employee to continue working in the particular industry), they are easier to enforce. Courts will look to see what interest the company is purportedly trying to protect; if it is a valid, protectable interest, such as a trade secret, the Court will generally uphold the nonsolicitation contract. (See below for further information on nonsolicitation agreements.)

8. COMPETITIVE EMPLOYMENT

For a period of two years following termination of employment with the Company, Employee will not, without first obtaining the express written consent of a Corporate Officer of Company, render services, engage in, enter the employment of, or act as an advisor or consultant to any person, firm or corporation engaged in or about to become engaged in the manufacture or sale of any product substantially similar to or competitive with any product on which or with which Employee worked or about which Employee obtained information during the last two years of his or her employment with the Company.

Annotation: This is a straightforward, no-nonsense non-competition provision. In those jurisdictions that regularly uphold non-competition agreements, the issue will be whether the duration and geographic scope of the clause is reasonable. The court will balance the right of the employer to protect its trade secrets, through the vehicle of a non-competition agreement, with the right of the employee not to be unduly fettered in seeking employment.

Note that this model contains no language regarding the geographic scope of the non-competition obligation. While courts have upheld noncompetition agreements that are

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worldwide in application, the employer will have to demonstrate that it has a unique interest deserving such broad protection. Again, by avoiding the impetus of greed, you can ensure enforceability. The best approach is to draft a non-competition provision that is narrowly tailored to protect the company's business interests and no more. Otherwise, it crosses the line and will be seen as overreaching and inordinately destructive of the employee's rights balanced against it.

Employee shall notify Employee's last supervisor (with a copy to Company's Corporate Headquarters to the attention of the Human Resources Department), by registered mail, should Employee be unable, within three months [after the later of the end of the calendar month in which (1) his or her employment with the Company is terminated, or (2) Employee ceases to receive any severance or salary continuation benefits from the Company,] to secure employment consistent with this Agreement after having devoted his or her best efforts to finding such employment. The Company, unless it notifies Employee in writing that it elects not to enforce the preceding paragraph of this Agreement, shall pay Employee at the end of each month thereafter, for so long as it elects to continue to enforce the preceding paragraph or until such time as Employee finds employment consistent with this Agreement, two-thirds of the base monthly salary (exclusive of commissions, bonuses, allowances, benefits and any other form of compensation) received by Employee at the time of the termination of his or her employment with the Company. Employee, during the period of such payments and as a condition of receiving such payments, shall conscientiously seek employment consistent with this Agreement and shall inform the Company on a monthly basis of all efforts made by Employee to secure such employment. Upon obtaining such employment, Employee shall immediately notify the Company to that effect by registered mail.

Annotation: This clause is not necessary in every state nor in agreements with every employee. But in those states that enforce restrictive covenants with great reluctance, this clause might make the difference between success and failure. Quite simply, this provision, and the one below, provide strong financial incentives for employees to conform to the noncompetition obligation. The provision minimizes the financial hardship that an employee who may have to learn a new skill or seek employment in a new industry must endure. Trial courts look very favorably on such provisions, as they provide the judge with additional information upon which to uphold a non-competition agreement.

The above notwithstanding, simply paying an employee to refrain from competitive employment will not, in those jurisdictions that do not enforce non-competition agreements, convert this to an enforceable provision. Rather, it provides a disincentive for a former employee to contest the contract.

Upon notice by the Company of its election to discontinue such monthly payments or at the end of the second year following Employee's termination of employment with the Company, whichever occurs sooner, Employee thereafter shall not be precluded from accepting any employment which Employee would be free to accept in the absence of this section of this Agreement and the Company's payments to Employee shall cease.

9. EMPLOYMENT AT-WILL

Employee's employment with the Company can be terminated with or without cause and with or without notice at any time, at Employee's option or that of the Company.

Annotation: Of course, all employment at-will relationships that have an additional non-competition obligation must be confirmed. Otherwise, a Court might rule that the additional burden that the company is putting on the employee converts their relationship from at-will to one that may only be terminated for good cause. Accordingly, the at-will relationship must be reconfirmed.

10. CONSTRUCTION OF AGREEMENT

THIS AGREEMENT WILL NOT BE ENFORCED BY THE COMPANY IN THE EVENT SUCH ENFORCEMENT WOULD BE CONTRARY TO APPLICABLE LAW. Whenever there is any conflict between any provision of this Agreement and any material present or future law, statute, governmental rule, ordinance or regulation contrary to which the parties have no legal right to contract, the latter shall prevail; but in such event, the effective provisions of this Agreement shall be curtailed and restricted only to the extent necessary to bring them within the legal requirements and the remainder of this Agreement shall not be affected.

Annotation: This provision allows a company with offices in, e.g., California or Georgia, and other, more lenient jurisdictions, to use this agreement throughout their operations. Another, more careful alternative, is to have one agreement that does not contain a potentially invalid non-competition clause for use in certain states (e.g. for California,) and another version containing a non-competition clause for use in the states that uphold such provisions.

11. COMPANY'S REMEDIES

Employee acknowledges that his or her obligations under this Agreement are special, unique and extraordinary and that any breach thereof will cause irreparable injury to the Company not properly compensable by damages in an action at law; the rights and remedies of the Company hereunder may therefore be enforced both at law or in equity, by injunction or otherwise. Employee agrees, if the Company prevails in any suit or proceeding to enforce its rights under this Agreement, to indemnify the Company for all expenses of every nature and character incurred by the Company including, without limitation, all reasonable attorneys' fees.

Annotation: Because of the nature of damages that may be caused by misappropriation of trade secrets or by unfair competition, it is important to confirm that money damages alone may not suffice and that the employer will seek an order actually stopping the unlawful conduct. For example, improper use of a trade secret by a competitor can destroy a business, causing irreparable harm that cannot be adequately compensated by a payment, no matter how large.

12. APPLICABLE LAW

This Agreement shall be governed by and construed under the laws of the State of Delaware, without regard to its conflict of laws principles.

Annotation: For those corporations that are incorporated in Delaware or that have other contacts with Delaware, the use of Delaware law will provide the best opportunity to enforce a noncompetition agreement.

13. JURISDICTION AND SERVICE OF PROCESS

Any action or proceeding seeking to enforce any provision of, or based on any right arising out of, this Agreement may be brought against any of the parties in the Courts of the State of Delaware or, if it has or can acquire jurisdiction, in the United States District Court for the District of Delaware, and each of the parties consents to the jurisdiction of such courts in any such action or proceeding and waives any objection to venue laid therein. Process in any action or proceeding referred to in the preceding sentence may be served on any party anywhere in the world.

Annotation: Most states will recognize and honor forum selection clauses, and since the laws vary greatly by state, it is advisable to include such a clause, identifying a jurisdiction like Delaware, that takes a more balanced view on the enforcement of restrictive covenants and which has a high-quality court system. Some forum selection clauses go so far as to require that suits arising out of the Agreement can be brought only in, e.g., Delaware.

14. TOLLING PERIOD

The non-competition, non-disclosure and non-solicitation obligations contained herein shall be extended by the length of time during which Employee shall have been in breach of any of said provisions.

Annotation: This provision discourages delay and stalling by the ex-employee and gives the employer the full period of time to which it is entitled.

15. ACKNOWLEDGMENT AND EFFECTIVE DATE

Employee acknowledges receipt of a copy of this Agreement and agrees that all of Employee's obligations hereunder shall be binding upon Employee's heirs, assigns and legal representatives. This Agreement supersedes any existing Agreement entered into by Employee and the Company relating generally to the same subject matter and shall be effective as of the date the Employee commenced or commences employment with the Company.

Employee's Signature

Date

THE INEVITABLE DISCLOSURE DOCTRINE.

A small group of cases have actually enjoined employees from going to work for competitors even in the absence of a covenant not to compete. The leading case is *Pepsico, Inc. v. Redmond*, 54 F.3d 1262 (7th Cir. 1995). That case involved a high ranking employee with detailed knowledge of strategic plans who was recruited by his former boss to go to work for his employer's direct competitor in a business that was marked by intense competition. *Id.* at 1263-

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64. In frequently quoted language, the court described the former employer's situation as that of "a coach, one of whose players has left, playbook in hand, to join the opposing team before the big game." *Id.* at 1270.

Pepsico is of interest because it involved the threat of disclosure of confidential information, and the court's finding of the inevitability of disclosure. An easier case is represented by *DoubleClick, Inc. v. Henderson*, 1997 N.Y. Misc. LEXIS 577, 1997 WL 731413 (N.Y. Sup. Ct. Nov. 7, 1997). That case involved high ranking employees who agreed to form a competing business and planned that business while still employed by Doubleclick. 1997 N.Y. Misc. LEXIS 577, at *6-*7. The court had no trouble issuing a preliminary injunction and finding plaintiff was likely to succeed on claims of both actual and inevitable disclosure of trade secrets, as well as breach of fiduciary duty and unfair competition. *Id.* at *16-*19. Despite rather egregious facts, it is noteworthy that the court in *DoubleClick* rejected the company's request for a one-year injunction, based on the "speed with which the Internet advertising industry apparently changes" and barred defendants from launching a competitive venture for only six months. *Id.* at *22-*23.

In *E.I. duPont, id.*, the plaintiff brought an action against one of its former employees and his new employer, who was the plaintiff's competitor, to enjoin the former employee from disclosing the plaintiff's manufacturing trade secrets. In denying the defendants' motion for summary judgment, the Delaware Court of Chancery acknowledged that it was entitled to consider whether the former employee's duties for his new employer would probably cause him to disclose the plaintiff's trade secrets. *Id.* at 435-36.

Since *E.I. duPont*, other Delaware cases have echoed this position. *American Hoechst Corp. v. Nuodex, Inc.*, Del. Ch., C.A. No. 7950, Hartnett, V.C. (April 23, 1985) (Letter Op.); *Autotote*, Del. Ch., C.A. No. 7268, Longobardi, V.C. (Aug. 18, 1983) (Mem. Op. at 5); *American Totalisator Systems, Inc. v. Automatic Totalisators (U.S.A.) Ltd.*, Del. Ch., C.A. No. 5562, Brown, V.C. (April 20, 1978) (Mem. Op.). The Court noted in *American Hoechst* that injunctions are appropriate remedies where a former employee has taken a job with one of the plaintiff's competitors and where there is reasonable probability that the employment will result in the former employee revealing the plaintiff's trade secrets, regardless of whether the employee intends to "disclose or make use of the trade secrets." *American Hoechst*, Del. Ch., C.A. No. 7950, Hartnett, V.C. (April 23, 1985). In *Autotote*, the plaintiff sued to enjoin one of the defendants, a former employee, from using or disclosing its trade secrets while working for the other defendant, its chief competitor. *Autotote*, Del. Ch., C.A. No. 7268, Longobardi, V.C. (Aug. 18, 1983) (Mem. Op. at 2). The former employee was a vice-president, and was privy to information regarding its strategic plans, detailed profit and loss information, and specific plans to obtain new business through bids. *Id.* at 2-3. The Court preliminarily enjoined the former employee from working for the competitor because his new employment would almost certainly result in the disclosure of the plaintiff's trade secrets:

without an injunction, it would not be possible to separate the known information and the subtle nuances of that knowledge from what could be an objective attempt by [the former employee and the competitor] to do their jobs . . . without that information. *In short, it is difficult to see how it would not be used.*

Id. at 11 (emphasis added).

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Similarly, the court in *Automatic* issued a preliminary injunction preventing a technical employee from working for one of his former employer's competitors until a final, expedited trial could be conducted. *Automatic*, Del. Ch., C.A. No. 5562, Brown, V.C. (April 20, 1978) (Mem. Op. at 8-9). After working for the plaintiff in developing the computer systems that the plaintiff sold, the former employee accepted a job with a chief competitor developing a rival computer system. *Id.* at 2. Significantly, the parties agreed that the former employee would not intentionally use or disclose trade secrets because of his "good intentions and professional integrity." *Id.* at 3. The plaintiff nonetheless asserted that a preliminary injunction was necessary because the former employee would inevitably rely upon and use portions of the system he developed for the plaintiff as part of the system he developed for the defendant. *Id.* at 3-4. The court agreed, and issued a preliminary injunction. *Id.* at 9.

Covenants Not To Solicit

Post-employment agreements designed solely to prohibit solicitation of the employer's customers are less restrictive than complete contractual bans on competition and are more readily upheld by the courts. Such covenants, however, are still significant restraints on trade. Consequently, in many jurisdictions, the employee must have conducted himself or herself in a manner that, together with the solicitation, constitutes unfair competition. For example, while mere solicitation of a former employer's customer may not be subject to prohibition, solicitation using the former employer's confidential customer list may lawfully be restricted.

Courts will look to whether the solicitation is combined with the use of confidential information, the breach of a fiduciary duty, an intent to injure the former employer's business, or deception. If the solicited customer has a contractual relationship with the employer, the injured employer may have a claim for intentional interference with the contractual relationship or for inducing breach of contract.

Confidentiality/Non-disclosure Agreements

Consider requiring new hires (or at least those applying for positions with access to confidential information) to execute an employment and confidentiality agreement as a condition of employment. Such an agreement helps to demonstrate that the company made reasonable efforts to maintain the secrecy of its confidential information. *Miles, id.* Any offer letter should state that employment is conditioned upon execution of the agreement, a copy of which should be attached.

In addition, depending on the nature of the trade secret, an employer may wish to consider implementing the following agreements:

- Consultant Non-Disclosure Agreement (to protect information that by necessity must be given to a consultant);
- Vendor Non-Disclosure Agreement;
- Facility Admittance Agreement (to be signed by visitors who may have access to confidential information during the course of their visit. This may also be used for individuals servicing equipment on-site).

An employer may also consider having temporary office workers execute a non-disclosure agreement. Each of these agreements should be tailored to the individual business and may either be in a letter format or a more formal document. In either case, both parties must acknowledge their understanding and agreement by signature.

SAMPLE CONFIDENTIAL AND PROPRIETARY INFORMATION AGREEMENT

It is recognized by the undersigned parties to this Confidential and Proprietary Information Agreement (Agreement) that _____ (the Company) does, in the course of its ordinary business, use, develop, possess, and acquire information relating to the _____ industry and pricing, marketing, and financial data related to that industry. This information, developed by and for the Company, is proprietary to the Company and must be maintained under strict confidentiality. Moreover, during employment with the Company, employees may learn of information about the Company's strategic business plans, practices and procedures, products and competitive strategies, and customer information that, both separately and together, comprise the trade secrets of the Company.

Annotation: This Agreement does not simply protect trade secrets. Courts have found that even information that does not rise to the level of a trade secret may be deemed a "protectable interest" of the employer. Accordingly, make sure that you strike a balance between being broad enough to protect all important information of a confidential nature, but not so broad that in trying to protect everything, you are seen as overreaching and your attempts to protect information simply dismissed as a restraint on competition.

Based on the above, this Agreement has three purposes:

1. To memorialize the position of trust and confidence that the undersigned employee, _____ (Employee), has with the Company and that, in such capacity, the Employee has a duty to maintain the secrecy of all such information that may be necessarily disclosed to the Employee in the course of his or her work for the Company;
2. To memorialize the Employee's obligation not to disclose or use any Company confidential information outside of his work with the Company, and that this non-disclosure obligation continues after the termination of his employment with the Company, so long as such confidential and proprietary information is not or has not become, by legitimate means, generally known to the public;

3. To memorialize the Employee's agreement not to solicit, divert or take away or attempt to solicit, divert or take away any customers, business or patrons of [Company Name] upon whom Employee called or whom Employee serviced or solicited or with whom Employee became acquainted as a result of employment with [Company Name], for a period of one year from the date of termination of employment with [Company Name].

Annotation: This Agreement does not constitute a general employment contract. It is narrowly tailored to memorialize the understanding between employer and employee that, as a condition of employment, the employee must understand and agree that certain items of information are to be maintained on a confidential basis and, further, that to protect customer identities and information, customers may not be solicited for a set period of time following termination of the employee's employment.

THEREFORE, AS A CONDITION OF EMPLOYEE'S EMPLOYMENT BY THE COMPANY, AND AS CONSIDERATION FOR EMPLOYEE'S AT-WILL EMPLOYMENT BY THE COMPANY, THE COMPANY AND EMPLOYEE AGREE AS FOLLOWS:

1. Definitions

For the purposes of this Agreement, the following definitions are established:

a. "Trade Secret" is defined as the whole or any part or phase of any customer list or related customer information, financial data, design, process, procedure, formula, improvement, or invention, which (i) is known to the Company, (ii) the Company considers confidential, and (iii) gives one who uses it an advantage over competitors who do not know of or use it. In addition to information belonging to [Company Name], information furnished to [Company Name] by third-parties can be a Trade Secret.

b. "Confidential Information" is defined as all items, materials and information (whether or not reduced to writing and whether or not patentable or copyrightable), which belong to the Company or have been confidentially provided to the Company by its customers or other third parties and which are related to (i) the present and future business endeavors of the Company, or (ii) the research and development or investigations of the Company, and which are kept confidential and secret by the Company. Confidential Information includes, among other things: customer data; customer account information; sales records; invoices; information contained in customer files and information provided by customers pertaining to those customers;

Trade Secrets; financial information, data or statements; the existence and contents of agreements; product research and development; existing and future product plans, designs, and performance specifications; marketing plans, strategies or schematics; the prices the Company obtains or has obtained for the sale of, or at which it sells or has sold products; and computer data, documentation, algorithms, process and know-how. "Confidential Information" does not include anything described above which is now generally known by parties other than [Company Name], its affiliates and/or employees (unless furnished by third parties as described above), or becomes generally known, through no act or failure to act of Employee.

Annotation: Note that we have differentiated between Trade Secrets, the most protectable form of information, and Confidential Information generally. By segregating the types of information in this manner, we can later show a judge or jury that the company was not trying to restrain competition, but was careful about tailoring disclosure restrictions to the importance of the information

c. "Inventions" is defined as all inventions, developments, discoveries, improvements or designs, whether or not patentable or copyrightable or reduced to practice, which are made, conceived or discovered by Employee, alone or with others, during the term of his or her employment by [Company Name]. The definition of "Inventions," however, shall not apply to an Invention that the Employee developed entirely on his or her own time without using the Company's equipment, supplies, facilities, or Trade Secret information except for those Inventions that either:

(i) Relate, at the time of its conception or reduction to practice, to the Company's business, or actual or demonstrably anticipated research or development of the Company;

(ii) Result from any work performed by the Employee for the Company.

2. At-Will Employment

Employee is employed with [Company Name] "at-will"; that is, Employee can terminate his or her employment relationship with the Company for any reason at any time, with or without notice. Similarly, the Company can terminate its relationship with Employee with or without cause and with or without notice. This at-will relationship can only be changed expressly in a writing signed by the President of [Company Name].

Annotation: Any time that you are requiring an affirmative obligation of an employee you should reiterate that the employee's relationship

with the employer is at-will and that nothing in the subject agreement changes that relationship in any way.

3. Non-Disclosure

(a) Employee acknowledges that Confidential Information is a valuable and unique asset of [Company Name] or third parties who have furnished it to [Company Name]. Employee understands that Confidential Information will only be made known to Employee in confidence in connection with his or her job duties. Employee agrees that disclosure or use of Confidential Information by Employee other than for the sole benefit of [Company Name] is wrongful and would cause irreparable harm to [Company Name]. If Employee is in doubt as to whether certain information is Confidential Information, Employee will treat such information as Confidential Information.

Annotation: Here we memorialize that the employee understands the significance of the subject information and that the information in being made known to him in strictest confidence solely to allow him to do his job. To that end, if an employee has no legitimate job-related reason to know certain facts, he should be denied access to such information if such restrictions can be reasonably implemented. In some situations, particularly in smaller organizations, it is not logistically or economically feasible to segregate employees and information in that manner. The inquiry will address whether the steps taken to keep the information secret were reasonable under the circumstances.

(b) Employee acknowledges that Employee will not disclose or use Confidential Information for any purpose other than in the performance of his or her duties for [Company Name]. This obligation extends during the entire term of Employee's employment with [Company Name] and after the date of termination of that employment.

Annotation: It is very important that the non-disclosure obligations extend past an employee's term of employment with the company. Often, employers stop short, protecting the information from disclosure during an employee's tenure with the company, only to leave them free to use the information once they have departed. There is no reason to impose those limits voluntarily.

(c) Employee agrees that Employee will use all reasonable measures to prevent the unauthorized use of Confidential Information by others. These measures include strict compliance with all procedures developed by [Company Name] to protect such information.

4. Confidential Information Of Former Employers

Employee understands that Employee is obligated to his or her previous employers to protect the confidentiality of Confidential Information learned while in their employ. Employee agrees that the unauthorized disclosure by Employee to [Company Name] of any confidential information belonging to others will constitute a breach of this Agreement by Employee.

Annotation: This provision is designed to minimize the potential for the employer to be liable for conspiring with an employee to take a competitor's trade secrets. Employees often begin their job armed with a tremendous amount of information following the termination of their employment with their previous employer. Whether or not the former employer has a nondisclosure policy, it is important to state at the time of hire, that the company does not want any information about the prior employer/competitor and that the employee should maintain such information in the same way that you expect the employee to treat your confidential information.

5. Ownership Of Confidential Information: Return Of Materials

Employee agrees that all Confidential Information, including that which is produced by [Company Name], all materials embodying Confidential Information, and all copies thereof, will remain the property of [Company Name] or of the third party who has furnished it to [Company Name]. At the termination of Employee's at-will employment with [Company Name] or at the written request of [Company Name] at any time, Employee will immediately deliver to [Company Name] all materials, and copies thereof, which are in Employee's possession or control and which contain or are related in any way to any Confidential Information.

Annotation: Make sure that your employees know they are to return all company materials, as well as copies of materials, upon the termination of their employment. Even more important, make sure that no matter who conducts the exit interview, a firm request is made for the return of such items or, in the alternative, that the employee confirm that all materials have been previously returned. Finally, check with the person to whom these items were purportedly returned.

Employees often respond that they do not have anything in their possession. In reality, this is a virtual impossibility. It becomes a matter of definitions; make sure that, by Confidential Materials, the employee understands that you mean internal memoranda,

employee handbooks and policy manuals, information regarding discarded or obsolete product lines, copies of e-mails (assuming that your company has an e-mail policy that states that e-mail is to be used for company business only), training materials, etc.

6. Inventions And Designs

(a) Employee agrees that he or she will promptly disclose to **[Company Name]** in writing the existence and nature of any invention of Employee. **[Company Name]** will maintain all such disclosures in confidence. **[Company Name]** and Employee understand that all inventions made by Employee prior to his or her employment with **[Company Name]** or its affiliates are excluded from the scope of this Agreement. As a matter of record, such prior inventions are listed in Exhibit A attached to this Agreement. Employee represents and covenants that such list is complete.

(b) Employee agrees that, except for inventions covered by paragraph 6(a) of this Agreement, all inventions are the sole property of **[Company Name]**. Employee hereby assigns to **[Company Name]** all rights, title and interest which Employee may now have or later acquire in inventions which are not subject to paragraph 6(a). If requested by **[Company Name]**, Employee will acknowledge this assignment and deliver any instruments confirming **[Company Name]** ownership of all such inventions. Additionally, Employee will execute whatever documents may be necessary for obtaining patents, copyrights or trademarks for the inventions owned by **[Company Name]**. Employee will cooperate with **[Company Name]** in the prosecution or defense of any patent claims or copyright claims or any litigation or other proceeding involving an invention covered by this paragraph 6(b), at **[Company Name]**'s expense.

7. Customer Secrecy

[Company Name]'s life-blood is its customer database. This proprietary customer information has been collected over a significant amount of time and at great effort and expense. This information is among the most highly confidential proprietary information of the Company. It is considered a Trade Secret of **[Company Name]**.

Annotation: If you are forced to go into court to protect your customer relationships, it is important to emphasize the proprietary nature of the relevant information. This provision establishes customer information as rising to the level of a trade secret (at least in the mind of the employer), the most protectable

form of confidential information. This provision, together with those steps taken to ensure the secrecy of the subject data, will be taken into account by the judge in determining whether the customer information meets the statutory definition of trade secret.

Accordingly, in order to ensure the protection of these Trade Secrets, it is agreed that the Employee will not, without the express written consent of the Company President, for a period of one year immediately following termination of Employee's employment with **[Company Name]** for any reason, either directly or indirectly call upon, solicit, divert or take away or attempt to solicit, divert, or take away any customers, business or patrons of **[Company Name]** upon whom Employee called or whom Employee serviced or solicited or with whom Employee became acquainted as a result of employment with **[Company Name]**.

Annotation: It is very difficult to ascertain whether customer information has been misappropriated or whether the customer - whose identity may be public knowledge - has been approached by the former employee through fair and lawful marketing programs. Accordingly, the simplest way to ensure that proprietary information is not being improperly used is to prohibit solicitation of that customer; in essence, stopping all communications from the employee to the customer for a given period of time. Note, however, that many jurisdictions will not prohibit a customer from approaching the former employee. To stop all business from being transacted between customer and former employee would be tantamount to an unlawful restraint on trade and could work an unfair hardship on the customer.

8. Remedy

Employee acknowledges that Employee's breach of the obligations under this Agreement cannot be reasonably or adequately compensated in damages in an action at law. If Employee breaches or threatens to breach any provisions of this Agreement, **[Company Name]** shall be entitled to an injunction, without bond, restraining Employee from committing such breach. **[Company Name]**'s right to an injunction shall not limit its right to any other remedies, including damages.

Annotation: In most misappropriation cases, money damages are difficult to assess because they are of a speculative nature; i.e., how much profit would have been derived from the customer in the future. Moreover, cases of this nature, and the act of misappropriation itself, often destroy any hope of future business with the customer in question and, therefore, money damages alone will not suffice. Accordingly, time is of the essence and any

misappropriation must be stopped long before the case can go to trial. The only way to accomplish this is to obtain a temporary restraining order, followed by a preliminary injunction. The above provision is not necessary but does show that the employee knew, in advance, that his conduct in violation of the agreement would trigger a request for injunctive relief.

9. Binding Effect

This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, personal representatives., successors and assigns.

10. Applicable Law

This Agreement shall be governed by the laws of the State of Delaware.

11. Jurisdiction And Service Of Process

Any action or proceeding seeking to enforce any provision of, or based on any right arising out of, this Agreement may be brought against any of the parties in the Courts of the State of Delaware or, if it has or can acquire jurisdiction, in the United States District Court for the District of Delaware, and each of the parties consents to the jurisdiction of such courts in any such action or proceeding and waives any objection to venue laid therein. Process in any action or proceeding referred to in the preceding sentence may be served on any party anywhere in the world.

12. Entire Agreement

This Agreement contains the entire agreement of the parties. The parties may only change this Agreement by executing an additional written and signed agreement.

13. Severability

If any provision of this Agreement is held by a court of competent jurisdiction to be void or unenforceable, the remaining provisions shall continue with full force and effect. If this Agreement shall be determined by any court to be unenforceable because of its duration or the scope of activities or geographic area covered, the parties agree that this Agreement shall be interpreted to extend only over the maximum period of time or range of activities or geographic area enforceable.

14. Tolling Period

The nondisclosure and confidentiality obligations contained herein shall be extended by the length of time during which Employee shall have been in breach of any of said provisions.

15. Notices

Any notice or other communication required to be given under the terms of this Agreement must be in writing and must be personally delivered or mailed by certified or registered mail with return receipt requested. If the notice is to be given to Employee, it will be sent to the address appearing at the top of this Agreement. If such notice is to be given to [Company Name], it will be sent to:

NAME
ADDRESS
ETC.

Either party may change its address by sending a notice of the changes specified in this paragraph.

Notice to Employee: This Agreement deals with important rights and obligations. Please read it carefully and make sure that you understand it completely.

I ACKNOWLEDGE THAT I HAVE READ AND UNDERSTOOD THIS AGREEMENT AND AGREE TO THE TERMS OF THIS AGREEMENT. FURTHERMORE, I ACKNOWLEDGE RECEIPT OF A COPY OF THIS AGREEMENT, AND UNDERSTAND THAT THE ORIGINAL OF THIS AGREEMENT WILL BECOME PART OF MY PERSONNEL FILE.

By: _____ [Company Name]
[Name of Employee]

Date: _____ By: _____
[Title]

Date: _____

Enforcing Written Agreements

It is not enough to just execute the above agreements. Consistent, systematic steps must be taken to remind your people that these agreements exist and to enforce them.

With respect to departing employees, it is imperative that line management understand the need for an exit interview. Explain to operations personnel that human resources will be conducting an exit interview and that a significant portion of that meeting will be devoted to a

reiteration of the employee's continuing obligation to safeguard the employer's proprietary information.

More directly, line management should understand that the departing employee will be required to return and/or account for all information, materials and tools belonging to the company. Before the employee leaves the company's premises and prior to the exit interview, line management should inventory all items that were previously in the employee's possession or control. Ideally, this should be done immediately prior to a termination or immediately after the employee's resignation. In the latter situation, some companies will provide pay in lieu of the typical notice requested of the resigning employee and immediately arrange for that employee's departure to limit the amount of information that may find its way out the company's doors.

When dealing with the anticipated departure of key personnel having significant data access, it is recommended that the employer send a friendly acknowledgment to the new employer. The letter should inform the new employer of the existence of a non-disclosure agreement executed by the employee and that the employee has reiterated his or her commitment to maintaining the secrecy of the employer's proprietary information. Include a copy of any and all contractual agreements relating to the employee's confidentiality obligations and end with an invitation to the new employer to contact the company if there is any question or concern over what might constitute the former employer's trade secrets.

This correspondence is often drafted by human resources or legal counsel for the signature of management. Much of the time it will depend on whether there is any current relationship between the management of the two companies; if there is some existing hostility or disagreement between the employers, legal counsel should always be consulted prior to sending such a missive.

Finally, line management should be apprised of a "chain of command" wherein all reports of a leak - be it from departing employees, vendors, or whomever - can be directed. Everyone should know exactly whose job this is, rather than just whose job it is not.

EDUCATION AND TRAINING

Employees need to be taught, and constantly reminded, of the value of the information they possess. In addition, the procedures you establish for storing, safeguarding and disposing of this information must be reinforced. Remember, your secrets are secrets only as long as your employees are willing to keep them!

Furthermore, employees who have contact with outside parties - customers, vendors, job applicants or others - need special instruction on what areas of information are confidential, and how to appropriately respond to inquiries, legitimate or not, that seek such information.

MANAGING YOUR INFORMATION

It is more than a mere truism that who has access to your information determines who will have access to your information. Basic steps to secure phone lines, fax lines, and computer networks should of course, be taken. In addition, every employer should articulate and enforce a policy regarding the protection, retention, and destruction of confidential information.

Employers may wish to consider the following steps to physically control the viewing and handling of sensitive information: a sign in/sign out system, special night access procedures, cordoning off certain facilities areas for limited access, requiring the use of identification badges, database protections on computers, teletype machines/lines designated for special use only, and control of trash disposal.