

A Newsletter by Budd Larner, P.C.

Protecting Proprietary Business Information

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Today's business climate is filled with risks that directly impact a company's competitive position. Rapid transfer of information, employee mobility, and an increasingly decentralized workplace make corporate technology, product development, inventions, and related proprietary rights vulnerable to misappropriation.

Protecting your proprietary information and customer databases, contracts, and financial and personnel transactions, is the key to preserving your company's intellectual capital.

A company's products, processes, and customer lists, to name a few, are often developed at high expense and may give the company a competitive edge in the marketplace. Taking preventative measures to guard those interests can help ensure their protection.

Trade Secrets and Other Proprietary Information

Whether certain information rises to a "trade secret" depends upon (a) the steps the company has taken to preserve the secrecy of the information, (b) the costs incurred by the company to acquire or develop the information, and (c) the existence of a competitive edge gained in the marketplace.

Most states have adopted some version of the Uniform Trade Secrets Act, which gives the owner of trade secrets protec-



tion from misappropriation by others. Extra protection can be obtained, however, by taking the following precautionary measures:

Define specifically in employee agreements and policy manuals which information the company deems trade secret or

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Key Employees and Restrictive Covenants

Your key employee has gone to work for a competitor, taking with him proprietary information. You could have taken preventative measures to protect your investment in this particular employee.

Covenants Not To Compete

A non-competition covenant prohibits employees from associating themselves with a competing business during or after em-

ployment. Most courts will enforce a reasonable non-competition agreement based upon a "legitimate business interest." Thus, most courts will uphold a covenant for the protection of an employer's trade secrets. Courts may or may not enforce other such agreements depending upon the degree of the sensitivity of the employee's knowledge or his or her status

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otherwise confidential information;

Disseminate written company policies to all employees regarding access to, use and transfer of, the specified confidential or trade secrets information;

Execute agreements with employees wherein they acknowledge the confidential nature of the specified information, agree not to use or disclose the information other than for authorized business purposes (both during and after employment), and acknowledge the company's ownership of such information;

Stamp "Confidential: Trade Secrets" indicia on all such information;

Limit access to material on a "need-to-know" basis. Limit work areas where trade secrets are developed.

Limit and number copies of confidential

or trade secret information. Maintain logs of who receives or reviews the numbered copies; and

Prevent access to trade secrets information by unscrupulous employees or visitors by keeping documents in locked facilities and locking development areas.

Invention and Ownership Issues

A company's employees may develop new inventions, processes, procedures, or other ideas. Generally, intellectual property developed by an employee during the course of employment is owned by the company under patent, copyright and trademark laws. In contrast, intellectual property developed by an independent contractor belongs to the independent contractor unless otherwise agreed.

The company can obtain intellectual property rights from independent contractors

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Key Employees and Restrictive Covenants

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level within the company. Other possible legitimate business interests may include protection of the employer's customer base or the employer's good will.

Activity Covenants

Many courts frown upon true "restrictive" covenants because they can severely inhibit a former employee's ability to earn a living. Employers may consider using "activity covenants" that prohibit a specified activity such as solicitation of customers. Even then, however, such activity restraints must be legitimate. For example, a judge is unlikely to enforce a covenant that restricts former employees from

soliciting customers with whom they never had contact.

Restrictive Covenant Elements

A restrictive covenant will generally be enforceable if it is used for a legitimate purpose. It must be reasonable as to (a) geography, (b) duration, and (c) the nature of activities prohibited. An overly onerous restrictive covenant may result in the court rewriting it or holding it unenforceable altogether.

At the outset, the purpose for the covenant should be clearly recited in the agreement. It should state the nature and scope of the employer's business and the

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"Activity covenants prohibit specified activities such as solicitation of customers"

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and bolster its claim to ownership of their creations by having all those engaged in research, development, or other creative positions execute invention and ownership agreements. Such agreements assign to the company ownership of any ideas developed by the individual during the course of the engagement, as well as all rights related to such ideas (such as the rights to manufacture or reproduce the work and to prepare derivative works).

As added protection, the company should conduct entrance and exit interviews with employees to identify potential intellectual property issues, such as the existence of pre-employment inventions or creations by the employee. The entrance interview is also a good time to ask applicants or new hires whether they are sub-

ject to any confidentiality, invention or restrictive covenants themselves.

Implementation and Enforcement

When and how a restrictive covenant or an assignment of rights is implemented and enforced may be as important as the content of the agreement itself. Keep the following points in mind:

Provide consideration, *i.e.*, something of value given by the company for the employee's promises. Notify applicants of the company's requirement of such agreements in pre-employment negotiations, and have the employee sign the agreements before or upon commencement of employment. The employment itself then serves as consideration for the agreement. For new covenants first imposed during employment, consider pro-

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“Have employees sign agreements before beginning or upon employment”

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employee's responsibilities, and the business interest served by the covenant.

Geography. The geographic scope and duration of the covenant reasonably necessary to protect the employer's interests should be considered. A restrictive covenant should not be broader than the geographic scope of the business or of the employee's assigned territory.

Duration. Similarly, a company that deals with rapidly changing information or technology or a fluid customer base may only be able to enforce a non-competition covenant for a few months, whereas a business that has a stable customer base or is not “hi-tech” may reasonably seek protection for one or more years.

Nature. The covenant should define the particular type of restricted employment or competitive business activity as narrowly as possible, and should impose the smallest possible time restriction to increase the chance of the covenant being enforced, while still protecting the employer's interests. ■



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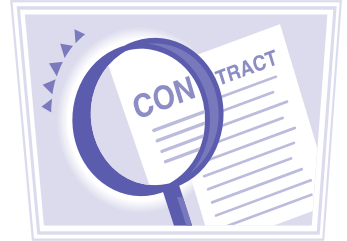
viding other consideration such as a signing bonus, a promotion or a pay raise which the employee would not otherwise receive. Continued employment in and of itself under current terms and conditions may or may not be considered valid consideration.

Be consistent. All employees in similar positions or with access to the same proprietary information should be required to sign similar restrictive covenants.

Be selective. Do not require covenants of every employee unless such broad coverage is truly required to protect the company's interests. Vary the terms of agreements executed by different levels of employees as necessary.

Enforce breached agreements. If employees know that the company routinely

does not enforce its restrictive agreements, the agreements will lose their deterrent value. Further, it will be harder to persuade a court that enforcement is necessary at the time for protection of the company's interests. ■



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Budd Lerner is a firm of approximately 100 attorneys with offices in Short Hills, NJ; Cherry Hill, NJ; New York, NY; and Philadelphia, PA. Founded in 1934, the firm provides a full range of legal services to a diverse group of clients, both domestic and foreign.

The firm's litigation and employment law attorneys are experienced in handling the full range of issues regarding matters involving allegations of unfair competition, trade secret protection, breach of confidentiality and restrictive covenants. We prepare agreements that help to ensure protection of trade secrets and proprietary information. We regularly appear on behalf of our clients in both state and federal courts to enforce such agreements.