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# Maximum Security: How to Prevent Departing Employees From Putting Your Trade Secrets to Work for Your Competitors

Victoria A. Cundiff

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# MAXIMUM SECURITY: HOW TO PREVENT DEPARTING EMPLOYEES FROM PUTTING YOUR TRADE SECRETS TO WORK FOR YOUR COMPETITORS

Victoria A. Cundiff †

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Sometimes an employee appears most valuable at the moment he announces he is leaving to work for a direct competitor. Suddenly the first employer realizes that the employee or consultant knows critical information at the very heart of the business. The employee may know secret formulas, special processing techniques, products under development, or key marketing data, such as product rollout schedules. He may have learned how to reconfigure off-the-shelf machinery to improve its efficiency or adapt it to a new use. He may have assembled a highly detailed, specialized customer list only after many months, or even years, of effort. He may have developed computer software that greatly reduces processing time and expense. Once the employee or consultant leaves, competitors are in a position to get the benefit of that valuable information. In short, it becomes painfully apparent that the confidential information the employee learned in his last job is precisely what many competitors would most like to learn from him in the next.<sup>1</sup>

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1. Since most of the considerations pertaining to consultants are the same as those concerning employees, the term "employee" in this article will generally cover both catego-

Virtually every company is likely to encounter this situation at least once. Many, in industries such as the computer field where frequent job shifts are the norm, face such departures on a regular basis. Not dealing with the possibility until it arises virtually ensures delay, expense and a drain on corporate manpower while reducing the chance that trade secrets will be preserved. Careful advance planning can greatly reduce the risk that a departing employee necessarily means departing trade secrets.

The following ounce-of-prevention approach addresses (1) reasonable precautions attorneys should recommend to employers before an employee or consultant leaves to prevent trade secret leakage and (2) practical and legal strategies to consider once the employee has announced his departure. Finally, it describes steps an attorney should recommend to a new employer to minimize the risk that in signing up a new employee, it is signing on for a potential lawsuit. Perhaps even more than other areas of law, protecting trade secrets requires a very close working relationship between attorney and client to ensure that legal theory is given practical effect.

Two major kinds of activities by former employees can place trade secrets in jeopardy. First, and fortunately infrequently, some employees affirmatively set out to take trade secrets for the use of others. Second, many employees go to work for competitors and assume, or are persuaded, that they are then free to use everything they learned in their prior employment. The approaches suggested in this article should make it easier to detect and prevent both kinds of activity.

## I. WHAT TO DO BEFORE THE EMPLOYEE LEAVES

### A. *Planning for the End in the Beginning: An Overview*

A company intent on protecting its trade secrets must first identify those secrets. It must then take steps to place its employees on reasonable notice that such information is to be kept confidential, both during employment and afterwards. Otherwise, employees cannot be expected to maintain the information in confidence. The company must establish appropriate procedures to limit access to confidential information to the minimum number of employees or consultants reasonably consistent with the business needs of the company. Finally, when the employee or consultant departs, the

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ries of people entrusted with confidential company information. The masculine pronoun will also be used for convenience, even though as women increasingly gain career positions giving them greater access to sensitive information they are more frequently involved in trade secret litigation than in the past.

company must get continuing agreement that the information will remain confidential.

Particular circumstances may dictate more rigorous protective measures. State law permitting, restrictive covenants may be appropriate to prevent certain employees from working in competitive positions for a reasonable period of time. Upon learning of new employment that threatens to place the first employer's trade secrets at risk, it may be necessary to commence detailed negotiations with the new employer to ensure that the employee will not be assigned to areas that inevitably put the company's secrets at risk. If these strategies fail, it may be necessary to commence litigation seeking an injunction against activities likely to lead to use or disclosure of trade secrets.

While different secrets may dictate somewhat different strategies, the company's overriding concern — before hiring the new employee or consultant, during employment, and upon departure — must always be to determine the most reasonable and effective way of protecting its confidential information.

## B. *Helping Your Client Identify Trade Secrets*

### 1. What is a Trade Secret?

The classic definition of trade secrets, which has been adopted by most states,<sup>2</sup> is found in Section 757 of the Restatement (First) of Torts, comment b (1939):

A trade secret may consist of any formula, pattern, device or compilation of information which is used in one's business and which gives him an opportunity to obtain an advantage over competitors who do not know or use it . . . .

\* \* \*

The subject matter of a trade secret must be secret. Matters of public knowledge or of general knowledge in an industry cannot be appropriated by one as his secret. Matters which are completely disclosed by the goods which one markets cannot be his secret . . . . Some factors to be considered in determining whether given information is one's trade secret are: (1) the extent to which the information is known outside his business; (2) the extent to which it is known by employees and others involved in his business; (3) the extent of measures taken to guard the secrecy of the information; (4) the value of the information to him and to his competitors; (5) the amount of effort or money

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2. See ROGER M. MILGRIM, *MILGRIM ON TRADE SECRETS*, § 2.01 n.1 (1991) for a list of cases, arranged by state, adopting the Restatement formulation.

expended by him in developing the information; (6) the ease or difficulty with which the information could properly be acquired or duplicated by others.

The Uniform Trade Secrets Act, adopted by thirty-three states and the District of Columbia, contains a similar definition:

"Trade Secret" means information, including a formula, pattern, compilation, program, device method, technique or process, that:

(i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and

(ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.<sup>3</sup>

Examples of qualifying secrets include formulas,<sup>4</sup> marketing plans,<sup>5</sup> special manufacturing processes,<sup>6</sup> sources of raw materials,<sup>7</sup> product specifications,<sup>8</sup> testing techniques,<sup>9</sup> specialized customer

3. Uniform Trade Secrets Act § 1 ¶¶ 4(i) & (ii). For a list of states that have adopted the Uniform Trade Secrets Act, see MILGRIM, *supra* note 2, at Appendix AA-1. By and large, courts in those jurisdictions recognize the continuing vitality of the Restatement definition. See MILGRIM, *supra* note 2, § 2.01[1] n.20.

4. See, e.g., *Coca-Cola Bottling Co. v. Coca-Cola Co.*, 107 F.R.D. 288, 289 (D. Del. 1985) (The classic Coca-Cola formula may well be the classic trade secret, referring to *India May Swallow Coke*, TIME, Aug. 22, 1977, at 44); *Mason v. Jack Daniel Distillery*, 518 So.2d 130 (Ala. Civ. App. 1987).

5. See, e.g., *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974); *Emery Industries v. Cottier*, 202 U.S.P.Q. (BNA) 829 (S.D. Ohio 1978); *B. Cantrell Oil Co. v. Hino Gas Sales, Inc.*, 756 S.W.2d 781 (Tex. Ct. App. 1988) (Marketing strategies for propane are trade secrets).

6. See, e.g., *Salsbury Laboratories, Inc. v. Merieux Laboratories, Inc.*, 908 F.2d 706 (11th Cir. 1990) (Manufacturing techniques for veterinary vaccine held to be trade secret; plaintiff awarded over \$2,000,000 in damages for misappropriation); *Forest Labs, Inc. v. Formulations, Inc.*, 299 F. Supp. 202 (E.D. Wis. 1969) (Process for prolonging shelf life of tablets trade secret), *aff'd except on atty's fees sub nom.*, *Forest Labs, Inc. v. Pillsbury Co.*, 452 F.2d 621 (7th Cir. 1971); *Sheridan v. Mallinckrodt, Inc.*, 568 F. Supp. 1347 (S.D.N.Y. 1983) (Extrusion blow molding process trade secret); *Avera v. Clark Moulding*, 791 S.W.2d 144 (Tex. Ct. App. 1990) (Process for manufacturing imitation marble picture frames held to be trade secret); *Posey v. Monier Resources, Inc.*, 768 S.W.2d 915 (Tex. Ct. App. 1989) (Procedures for mixing concrete held to be trade secrets); *Lamont, Corliss & Co. v. Bonnie Blend Chocolate Corp.*, 238 N.Y.S. 78 (N.Y. Sup. Ct. 1929) (Process for manufacturing chocolate powder held to be trade secret).

7. See, e.g., *Jet Spray Cooler, Inc. v. Crampton*, 282 N.E.2d 921 (Mass. 1972); *Vulcan Detinning Co. v. Assman*, 173 N.Y.S. 334 (N.Y. App. Div. 1918).

8. See, e.g., *Henry Hope X-Ray Products, Inc. v. Marron Camel, Inc.*, 674 F.2d 1336, 1341 (9th Cir. 1982) (Plans, designs and specifications for components of photoprocessing machine held to be trade secrets); *Ecolaire Inc. v. Crissman*, 542 F. Supp. 196, 203-04 (E.D. Pa. 1982) (Plans, design and specifications not readily ascertainable from product held to be trade secrets); *Boeing Co. v. Sierracin Corp.*, 738 P.2d 665 (Wash. 1987) (Specifications that were not readily ascertainable from marketed product held to be trade secrets).

9. See, e.g., *SI Handling Systems, Inc. v. Heisley*, 753 F.2d 1244 (3d Cir. 1985).

lists<sup>10</sup> (but not lists that can be readily derived from widely available directories),<sup>11</sup> pricing information,<sup>12</sup> the expiration dates of customer contracts,<sup>13</sup> properly protected computer software<sup>14</sup> and proven modifications to, or new uses for, readily available ingredients or machines.<sup>15</sup> Dead ends can be trade secrets: knowing that one way of attempting to manufacture a particular item does not work can save months or even years of wasted effort.<sup>16</sup>

Keep in mind that trade secrets need not be highly sophisticated. Knowing that a raw material is more potent or can be used in much smaller quantities if added at the end of a manufacturing process rather than at the beginning, for example, may seem simple, but this knowledge, if not generally known within the industry, can result in substantial cost savings and, hence, a competitive edge. Such information can therefore qualify as a trade secret.

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10. See, e.g., *Surgidev Corp. v. Eye Technology, Inc.*, 828 F.2d 452, 455-56 (8th Cir. 1987); *Zoecon Indus. v. American Stockman Tag Co.*, 713 F.2d 1174, 1176 (5th Cir. 1983); *Courtesy Temporary Serv., Inc. v. Camacho*, 272 Cal. Rptr. 352, 356 (Cal. Ct. App. 1990); *American Paper & Packing Prods., Inc. v. Kirgan*, 228 Cal. Rptr. 713, 716 (Cal. Ct. App. 1986); *Leo Silfen, Inc. v. Cream*, 278 N.E.2d 636 (N.Y. 1972); *Town & Country House & Homes Servs., Inc. v. Evans*, 189 A.2d 390, 393 (Conn. 1963).

11. See, e.g., *DeSantis v. Wackenhut Corp.*, 793 S.W.2d 670, 684 (Tex. 1990), *cert. denied*, 111 S. Ct. 755 (1991) (Customer list is not trade secret where customers could readily be identified by others or where customers' needs could be readily determined by contacting these ascertainable customers); *Columbia Ribbon & Carbon Mfg. v. A-I-A Corp.*, 369 N.E.2d 4 (N.Y. 1977) (No trade secret protection for readily ascertainable customer lists); *Arnold K. Davis & Co. v. Ludemann*, 599 N.Y.S.2d 240 (N.Y. App. Div. 1990) (Customer list of insurance company is not generally a trade secret); *Metal & Salvage Ass'n, Inc. v. Siegel*, 503 N.Y.S.2d 26 (N.Y. App. Div. 1986) (Customer list not trade secret where little effort or expense to obtain it and business tends to be non-recurring).

12. See, e.g., *Union Carbide Co. v. UGI Corp.*, 731 F.2d 1186, 1191 (5th Cir. 1984) (Applying Pennsylvania law); *Bertotti v. C.E. Shepherd Co.*, 752 S.W.2d 648, 653-54 (Tex. Ct. App. 1988).

13. See, e.g., *Alexander & Alexander, Inc. v. Drayton*, 378 F. Supp. 824, 832-833 (E.D. Pa. 1974), *aff'd*, 505 F.2d 729 (3d Cir. 1974) (Expiration dates and gross revenues from insurance policy owners held to be trade secrets); *Tie Sys., Inc. v. Telcom Midwest, Inc.*, 560 N.E.2d 1080 (Ill. App. Ct. 1990); *Murrco Agency, Inc. v. Ryan*, 800 S.W.2d 600, 605 (Tex. Ct. App. 1990); *cf. Allan Dampf, P.C. v. Bloom*, 512 N.Y.S.2d 116 (N.Y. App. Div. 1987) (Dentist's patient recall list held to be trade secret); *Metal & Salvage Ass'n, Inc. v. Siegel*, 503 N.Y.S.2d 26 (N.Y. App. Div. 1986) (Customer "deal files" held to be trade secrets).

14. See, e.g., *Integrated Cash Management Servs., Inc. v. Digital Transactions, Inc.*, 732 F. Supp. 370 (S.D.N.Y. 1989), *aff'd*, 920 F.2d 171 (2d Cir. 1990); *University Computing Co. v. Lykes-Youngstown*, 504 F.2d 518 (5th Cir. 1974); *Otis Elevator Co. v. Intelligent Sys., Inc.*, 17 U.S.P.Q. (BNA) 1773, 1779 (Conn. Super. Ct. 1990).

15. See, e.g., *L.S. Donaldson Co. v. La Maur, Inc.*, 299 F.2d 412 (8th Cir. 1962), *cert. denied*, 371 U.S. 815 (1962).

16. See, e.g., *Metallurgical Indus. Inc. v. Fourtek, Inc.*, 790 F.2d 1195, 1202-1203 (5th Cir. 1986) ("Knowing what not to do often leads automatically to knowing what to do.")

## 2. Take Inventory

It is difficult for a company to protect trade secrets it does not formally recognize. Perhaps the best way to identify the company's trade secrets is to periodically ask managers, scientists, technical gurus and the sales force a series of questions. What does the company know that gives it an advantage over its competitors? Is there reason to believe that others do not know this information? Is the information something competitors would be likely to want to know? Was the information difficult or expensive or time-consuming to gain? Would the company suffer significant damage if competitors obtained the information? Where is that information resident (by department, or by job description)? The answers to these questions will likely point the way to the company's current secrets. Remember that most companies regularly add to their store of trade secrets. Running this inquiry periodically to determine both whether new information qualifies for protection and whether old information no longer qualifies is a solid practice.

### C. *Install Appropriate Protections*

#### 1. Restrict Access to Confidential Information

The best way to protect confidential information is to make sure that as few people within the company learn the details of the information as possible. What an employee — past or current — does not know, he cannot disclose to others.

Restricting access to confidential information does not mean that a company must keep its employees in the dark about its essential plans. It does mean, however, that while many employees may need to know that the company's major product push for the next year will be to design a faster computer that will achieve specified results more efficiently than competitive products currently on the market, not as many need to know precisely how work is progressing and the details of such varied aspects of the product development as sources of supply, costs of components, prospective upgrades, protocols and interfaces, coding sequences, projected market dates, pricing strategy, planned distribution network, and so forth. Advise the company to make sure that each employee knows what he needs to be a contributing member of the team, but consider whether every employee truly needs to know every detail of what every team is working on.<sup>17</sup> The watchword is "think." Do

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17. See, e.g., *Com-Share, Inc. v. Computer Complex, Inc.*, 338 F. Supp. 1229, 1234-35 (E.D. Mich. 1971), *aff'd*, 458 F.2d 1341 (6th Cir. 1972) (Fact that computer system access



not allow trade secrets to be disclosed to anyone without determining whether disclosure is necessary.

## 2. Tell Employees and Consultants What Information is Confidential

If employees are given access to confidential information, make sure they know it. Departing or current employees cannot be expected to protect trade secrets if they have not been made aware that certain information is restricted. Courts are apt to deny employers injunctive relief against use or disclosure of information if the employees were not made aware that the information was confidential.<sup>18</sup>

It is obvious that, without clear guidance, employees may have a very different view from their employers of what information is confidential — or may say they do upon leaving the company. Therefore, in anticipation of such likely-to-occur differences, employers should be advised to find opportunities to inform and remind employees about the kinds of information the employer regards as confidential. Give concrete examples. When particularly sensitive information is given to employees, employers should underscore the importance of maintaining it in confidence. Finally, where practicable, employers should document these advices as discussed below. Being able to offer documentary proof that the company clearly identified confidential information to the former

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was password protected and access therefore restricted important indication that software was a trade secret); *Telerate Sys., Inc. v. Caro*, 689 F. Supp. 221, 232 (S.D.N.Y. 1988) (same); *Schalk v. State*, 767 S.W.2d 441, 447-48 (Tex. Ct. App. 1988), *aff'd*, 1991 Tex. Crim. App. LEXIS 201 (Oct. 2, 1991) (Fact that access to computer programs was permitted only on a "need to know" basis and programs were password protected probative, along with other factors, of secrecy of programs); *Murrco Agency, Inc. v. Ryan*, 800 S.W.2d 600, 604 (Tex. Ct. App. 1990) (Dividing customer lists among employees on a "need to know" basis viewed as evidence that lists were proprietary). *Cf. Business Trends Analysts v. Freedonia Group, Inc.*, 700 F. Supp. 1213, 1236 (S.D.N.Y. 1988), *aff'd in part and rev'd in part on other grounds*, 887 F.2d 399 (2d Cir. 1989) (Fact that access could be gained to customer lists on computer without use of special code and copies of lists were discarded in public hallways and handled by general personnel who had no need for them evidence that customer list was not a trade secret); *Auto Wax Co., Inc. v. Byrd*, 599 S.W.2d 110, 112-13 (Tex. Ct. App. 1990) (Fact that formulas kept in an unlocked file cabinet during office hours and anyone, including employees and customers, could gain access to them evidence that formulas were not secret).

18. *See, e.g., Lamons Metal Gasket Co. v. Taylor*, 361 S.W.2d 211, 213 (Tex. Civ. App. 1962) (It is not "actionable conduct on the part of the employee to reveal or use information gained in the course of his employment when in fact he did not know that his employer desired such information be kept secret and he was not charged as a matter of law with such knowledge"). *Accord, Electro-Craft Corp. v. Controlled Motion, Inc.*, 332 N.W.2d 890 (Minn. 1983); *MBL (USA) Corp. v. Diekman*, 445 N.E.2d 418 (Ill. App. Ct. 1983); *Pressure Science, Inc. v. Kramer*, 413 F. Supp. 618 (D. Conn. 1976), *aff'd*, 551 F.2d 301 (2d Cir. 1976).

employee will make subsequent negotiation or litigation much more likely to succeed.

### 3. Use Confidentiality Agreements

Most states imply a duty to keep an employer's confidential information secret whether or not the employee has signed a confidentiality agreement.<sup>19</sup> Requiring employees to enter into a written confidentiality agreement, however, serves a number of valuable purposes. First, it is an explicit reminder that the company has developed its own information that is not to be freely disclosed to others. The contract may therefore help guide the employee's future actions. Second, the agreement has later evidentiary value.<sup>20</sup> It is difficult for an employee who leaves a company after signing such an agreement to contend that he was never told not to disclose the company's valuable secrets. Conversely, the absence of a confidentiality agreement can be an indication that particular matter is not a trade secret.<sup>21</sup> Third, an employee who participates in identifying secrets to be subject to the protections of such an agreement may later be estopped to deny that such information is protectible under trade secret law.<sup>22</sup>

Advise employers that if they use confidentiality agreements, they should insist that every employee who is given access to confidential information actually signs the confidentiality agreement. A trade secret protection program that is implemented only sporadically may be found to be no protection at all.<sup>23</sup>

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19. *See, e.g., Zoecon Indus. v. American Stockman Tag Co.*, 713 F.2d 1174, 1178 (5th Cir. 1983) ("A confidential employment relationship can be established expressly by contract or can be implied from the nature of the relationship."); *Maxwell Alarm Screen Mfg. Co. v. Protective Serv. Corp.*, 218 U.S.P.Q. (BNA) 580, 581 (C.D. Cal. 1982); *Fortune Personnel Agency, Inc. v. Livingston*, 423 N.Y.S.2d 360 (N.Y. Sup. Ct. 1979); *L.M. Rabinowitz Co., Inc. v. Dasher*, 82 N.Y.S.2d 431, 435 (N.Y. Sup. Ct. 1948) ("It is implied in every contract of employment that the employee will hold sacred any trade secrets or other confidential information which he acquires in the course of his employment."); *Affiliated Hospital Prods., Inc. v. Baldwin*, 373 N.E.2d 1000 (Ill. App. Ct. 1978) (Duty not to use or disclose "exists apart from any express contract.").

20. *See, e.g., Cambridge Filter Corp. v. International Filter Co.*, 548 F. Supp. 1301 (D. Nev. 1982) (applying California law) ("A requirement that a salesman sign a confidentiality agreement is evidence to be considered in determining whether the information is protectible," finding nonetheless, no trade secret).

21. *Daily Int'l Sales Corp. v. Eastman Whipstock, Inc.*, 662 S.W.2d 60, 63 (Tex. Ct. App. 1983) ("Although an express contractual provision is not required to establish a duty of confidentiality, the absence of an agreement restricting disclosure of information is a factor the court may consider.").

22. *See, e.g., Telerate Sys., Inc. v. Caro*, 689 F. Supp. 221, 232 (S.D.N.Y. 1988).

23. *See, e.g., MBL (USA) Corp. v. Diekman*, 445 N.E.2d 418 (Ill. App. 1983); *Pressure Science, Inc. v. Kramer*, 413 F. Supp. 618 (D. Conn. 1976).

Keep in mind that a confidentiality agreement cannot transform information that is generally known into a trade secret,<sup>24</sup> or, in most instances, extend the obligation to maintain confidentiality beyond the time that a trade secret becomes generally known.<sup>25</sup> Nor can a confidentiality agreement substitute for identifying trade secrets and taking necessary steps to protect them.<sup>26</sup> Finally, be sure not to draft a confidentiality agreement so narrowly that it protects only a small portion of the company's confidential information. While trade secrets are protectible even in the absence of an agreement, a too narrowly drafted agreement may foreclose broad relief.<sup>27</sup>

#### 4. Use Confidentiality Legends and Document Controls

Applying a confidentiality legend to confidential documents not only serves as a warning that particular information is confidential, but also reinforces the company's overriding concern for protecting its confidential information. The legend may be as simple as the word "CONFIDENTIAL."

Instruct your clients to avoid over-legending. Routinely marking documents or other things (e.g., computer tapes) confidential that clearly are not may be seen as giving the employee no guidance

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24. See, e.g., *Arthur Murray Dance Studios, Inc. v. Witter*, 105 N.E.2d 685, 710 (Ohio 1952) ("In self-serving 'whereas' clauses an employer cannot state that he is going to confide something unique and hush, hush and then merely disclose the A.B.C.'s or Mother Goose Rhymes, and make that the basis of irreparable injury"); *Crouch v. Swing Mach. Co., Inc.*, 468 S.W.2d 604, 606 (Tex. Ct. App. 1971) ("What is known to all cannot be converted into confidential information worthy of equitable protection by merely whispering into the ear of even the most highly trusted employee"; court refused to enforce confidentiality agreement with respect to information that was not confidential).

25. A few courts have expressly held that a confidentiality agreement must be narrowly tailored to protect confidential information only during the period that the information is confidential and have refused to enforce confidentiality provisions of indefinite duration. See, e.g., *AMP Inc. v. Fleischacker*, 823 F.2d 1199 (7th Cir. 1987); *Disher v. Fulgoni*, 464 N.E.2d 639 (Ill. App. Ct. 1984); *Howard Schultz & Assocs. v. Broniec*, 236 S.E.2d 265, 270 (Ga. 1977); *Gary Van Zeeland Talent, Inc. v. Sandas*, 267 N.W.2d 242, 250 (Wis. 1978). This concern can likely be overcome by including a provision that the nondisclosure obligation will terminate as to each item of confidential information once that specific information becomes generally known through no fault of the employee.

26. See, e.g., *Electro-Craft Corp. v. Controlled Motion, Inc.*, *supra* note 18, at 890 (No protection where plaintiff "never issued a policy statement outlining what it considered to be secret" and "the confidentiality agreements signed by the employees were too vague to apprise the employees of specific secrets.").

27. See, e.g., *Ferroline Corp. v. General Aniline & Film Corp.*, 207 F.2d 912 (7th Cir. 1953), *cert. denied*, 347 U.S. 953 (1954) (applying New Jersey Law) ("Where there is an express agreement between the parties covering the subject matter, the law will not create another by inference.").

at all as to what documents are in fact confidential. Conversely, employers should isolate and legend all critical information. While, if necessary, an employer may well be able to offer extrinsic evidence that an employee knew or should have known particular information was confidential, legending some but not all matters may give trade secret defendants grounds for argument, thereby driving up costs and slowing resolution of the matter. Advise your client to consider adding a feature to the company's word processing system inquiring each time a document is created whether the legend should be applied. This step will require thought about confidentiality before the document is even printed.

Suggest that your client consider numbering critical documents as well as legending them, maintaining a log showing where each copy is at a given time.<sup>28</sup> Recommend that computer records be established showing who has accessed password protected documents and for how long. This information should be maintained as important company records. Particularly sensitive documents can be printed on distinctive paper to make it easier to detect unauthorized use.

Maintaining such safeguards for confidential documents can prove extremely useful if an employee does leave. First, the confidentiality legending should give the employee certainty that the information in those documents is not to be used or disclosed outside the company. It will be difficult for a former employee to contend that he did not know information was confidential and should not be shown to his new employer if the information is clearly marked "CONFIDENTIAL" (assuming, of course, that the employer has not "cried wolf" by careless or indiscriminate legending). Second, a log can give the company guidance as to what sensitive documents the employee may have in his possession that should be returned upon departure. Finally, the use of legending and document control procedures can often make it easier to resolve any disputes once an employee leaves. A court or a competitive employer faced with proof that a company has taken extensive precautions to protect particular information from dissemination will be more likely to agree that the first employer's information is entitled to protection.<sup>29</sup>

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28. See *Schalk v. State*, *supra* note 17, at 441 (Maintenance of a highly confidential Trade Secret Register in the legal department evidence of secrecy in criminal trade secret action; on appeal that evidence by itself held inconclusive because Register was not timely updated and did not refer to specific software involved in case).

29. For a general discussion of how to protect confidential information, see Victoria A. Cundiff, *How to Set Up a Trade Secret Protection Program*, in 1 INTELLECTUAL PROPERTY

#### D. Consider Using Restrictive Covenants

Confidentiality agreements are an important tool for almost any company having significant confidential information. Restrictive covenants, which attempt to protect trade secrets by restricting a former employee from engaging in competitive activity for a specified period of time, present more difficult philosophical and legal issues. However, there is no doubt that a valid restrictive covenant is among the most effective ways of protecting confidential information. If a former employee cannot work for competitors for a period of time, competitors will not be in as good a position to receive the benefits of the former employer's trade secrets.<sup>30</sup> Even if the former employee eventually works for a competitor when the restrictive covenant has expired, time spent away from activities in which he would be most likely to use the first employer's trade secrets lessens the risk that when he eventually can work for a competitor, he will use or disclose the secrets.<sup>31</sup>

Despite the advantages of restrictive covenants, some companies nonetheless decide not to use them because of independent concerns, such as a potential change in the corporate atmosphere. Some employers fear that current or potential employees will feel "trapped" if asked to sign a restrictive covenant. They also worry about the impact on recruiting efforts. While these concerns can usually be addressed and solved by sensitive presentation of the rationale for restrictive covenants, restrictive covenants may not be appropriate for your client's needs. Be sure, however, to give the matter careful thought.

##### 1. What Law Will Govern?

Companies that do decide to use restrictive covenants must be certain to comply with the requisite legal requirements or risk being left with an unenforceable contract. State law determines the re-

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LITIGATION 297 (1992). For a discussion of how to protect confidential information resident in a local access network, see S.M. Alter, *Trade Secrets and Telecommunications: The Problems with Local Area Networks*, 34 IDEA 297 (1991).

30. While a former employee intent on exploiting his ex-employer's trade secrets could do so without going to work as a full-time employee for a competitor, a well-drafted restrictive covenant will prevent him from assisting competitive employers by functioning as a consultant or outside director or engaging in other activities intended to evade the basic intent of a restrictive covenant.

31. Under common law and, ideally, contractual duties of confidentiality, the former employee is not entitled to use confidential information even after the restrictive covenant has expired. As a practical matter, however, it is likely that time spent away from the activities in question will hamper the employee's ability to recall confidential information and use it for a subsequent employer.

quirements for restrictive covenants.<sup>32</sup> Contracts must always be drafted with a careful look at the law of the state where the employment is to take place, as that is typically the law that will be found to govern the particular contract.<sup>33</sup> While a company having branch offices in many states would naturally prefer to specify a single law, usually that of the home office, as governing the employment contracts of all its employees, a restrictive covenant is not likely to be enforced if it does not satisfy the public policy of the state where the employee actually works.<sup>34</sup> Attorneys faced with this situation should therefore, first, be sure to attempt to conform individual employment agreements to the law of the state of actual employment, and second, direct the company to maintain careful records establishing that although the employee resided and performed some work in one state during his employment, much of his work was done at or directed by the home office in another state. Such records can be used to argue that the state having the most significant connection with the employment relationship, and therefore the state whose law should govern, is the state of the home office.<sup>35</sup>

If a choice of law provision is used, the law specified should have a clear and substantial connection to the employment.<sup>36</sup> Even so, if enforcing a restrictive covenant would seriously contravene important public policies of the state where enforcement is ultimately sought, the covenant still may not be enforced.<sup>37</sup> Therefore,

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32. For a discussion of varying state requirements, see MILGRIM, *supra* note 2, §§ 3.02[1][d], 3.02[2][a] and 3.05[1][d].

33. See, e.g., *DeSantis v. Wackenhut Corp.*, *supra* note 11, at 678-79 (Where Texas resident performed work in Texas and subsequently sought to work for another Texas employer, court applied Texas law, notwithstanding contract's specification of Florida law); RESTATEMENT (SECOND) OF CONFLICT OF LAWS § 187 cmt. d (1971). For considerations going into contractual choice of laws other than place of employment, see MILGRIM, *supra* note 2, at § 3.02[1][g].

34. *DeSantis v. Wackenhut Corp.*, 793 S.W.2d at 678-79.

35. *Cf. id.* at 679 (Fact that some negotiations occurred in Florida and employer supervised Texas office from Florida insufficient to justify application of Florida law to employee who worked in Texas); *Dresser Indus., Inc. v. Sandvick*, 732 F.2d 783, 787 (10th Cir. 1984) (Although employer's principal place of business was Texas, employees spent time in Texas only for orientation and training and performed their employment duties in other jurisdictions; held, law of jurisdictions where work actually performed was controlling).

36. The choice of law provision should also recite that the choice of law provisions of the law chosen to govern substantive rights shall not apply, since application of choice of law principles might well undo the parties' intent by specifying that another state's law should govern.

37. See, e.g., *Rain & Hail Ins. Serv., Inc. v. Casper*, 902 F.2d 699 (8th Cir. 1990) (Refusing to enforce choice of law provision specifying application of Iowa law where doing so would violate Nebraska public policy concerning such covenants); *Merrill Lynch Pierce Fenner & Smith Inc. v. Stidham*, 658 F.2d 1098 (5th Cir. 1981) (Applying Georgia law in face of

be sure your client also has in place extensive safeguards of the kind discussed above.

## 2. When State Law Prohibits Restrictive Covenants

A number of states prohibit, or severely restrict, the availability of post-employment restrictive covenants.<sup>38</sup> In reality, however, even these states may enforce such covenants if essential to protect trade secrets.<sup>39</sup> Further, some such states may grant injunctive relief that has the effect of preventing competitive activities for a period of time.<sup>40</sup> If you find yourself evaluating the law of such a state, begin with the statutory requirements, but be sure to study how courts have decided actual cases, as well. Further, if you are operating in a state negatively disposed toward enforcing restrictive covenants, work with your clients to establish an extra-secure trade protection program.

## 3. Factors Bearing on Enforceability of Restrictive Covenants

If you are concerned with the law of a state which does enforce restrictive covenants, be sure to determine that state's specific requirements. Some general considerations to focus upon follow.<sup>41</sup>

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contractual provision specifying application of New York law where covenants were to be enforced in Georgia and Georgia had strong public policy on the issue).

38. See, e.g., for Alabama: ALA. CODE § 8-1-1 (1975); for California: CAL. BUS. & PROF. CODE § 16600 (West 1964); for Colorado: COLO. REV. STAT. § 8-2-113 (1973) (However, statute contains exceptions to nonenforceability); for Louisiana: LA. REV. STAT. ANN. § 23.921 (West 1964) (Permitting up to a two-year restriction in certain cases); for Michigan: MICH. COMP. LAWS § 445.761 (1967); for North Dakota: N.D. CENT. CODE § 9-08-06 (1960); Oklahoma: OKLA. STAT. TIT. 15 § 217 (1966); for South Dakota: S.D. CODIFIED LAWS ANN. § 53-9-8 (1980). Other states impose specific statutory requirements which must be complied with before a restrictive covenant will be enforced. See *supra* note 32 and accompanying text.

39. See discussion of the judicially created exception permitting enforcement of limited restrictive covenants to protect confidential information notwithstanding statutory authority that appears to be to the contrary in *Scott v. Snelling & Snelling, Inc.*, 732 F. Supp. 1034, 1043 (N.D. Cal. 1990). To the same effect see *Cambridge Filter Corp. v. International Filter Co.*, *supra* note 20, at 1301 (Applying California law but finding no evidence that defendant salesman would disclose trade secrets if not enjoined).

40. See, e.g., *Allis-Chalmers v. Continental Aviation & Eng'g Corp.*, 255 F. Supp. 645 (E.D. Mich. 1966) (Prohibiting competitive activity for limited periods where it was inevitable that otherwise the former employee would use, if not disclose, former employer's trade secrets). See also MILGRIM, *supra* note 2, at § 3.05[1][d] n.29.

41. For commentary tied to the law of specific states see Note, *Validity of Covenants Not to Compete: Common Law Rules and Illinois Law*, 1978 LAW FORUM 249 (1978); Alexander Sowell, Comment, *Covenants Not to Compete: A Review of the Governing Standards of Enforceability After DeSantis v. Wackenhut Corp. and the Legislative Amendments to the Texas Business and Commerce Code*, 45 SOUTHWESTERN L.J. 1009 (1991); M.R. Yogi Mc-

Most states permitting restrictive covenants require courts to examine the duration of the restriction, the geographic restriction on competitive employment, and, often most important, the scope of the activities to be restricted.<sup>42</sup> Courts then determine whether the restrictions are appropriate given the confidential information to be protected.<sup>43</sup> The burden of proving reasonableness is typically on the employer.<sup>44</sup> It is extremely important, therefore, that your client not overreach — seeking a five-year non-competition agreement preventing any work in the computer industry anywhere in the United States, for example, when what is really needed is an agreement simply preventing the employee from designing manufacturing scheduling software for the confectionery industry for the next nine months until your client's product is on the market. While some states allow courts to “blue pencil” offensive contractual provisions (*i.e.*, to mechanically strike overbroad words and phrases and enforce the remaining portions of the agreement), others simply refuse to enforce any portion of contracts that do not in their entirety meet the requisite legal requirements.

A number of states impose additional requirements. Many states will not enforce free-standing restrictive covenants. The restriction must be ancillary to another agreement, such as a contract for the sale of a business or a genuine employment agreement. An “agreement” simply reciting that an employee is “at-will” may well be inadequate,<sup>45</sup> particularly if the employment did not in fact con-

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Kelvey, *Post Employment Noncompetitive Restrictive Covenants in Texas*, 30 S. TEX. L. REV. 1 (1988).

42. See, e.g., *American Broadcasting Companies, Inc. v. Wolf*, 420 N.E.2d 363 (N.Y. 1981) (Refusing to imply post-employment non-competition agreement where employee had not learned trade secrets in former employment); *Columbia Ribbon & Carbon Mfg. v. A-I-A Corp.*, 369 N.E.2d 4 (N.Y. 1977); *Reed Roberts Assocs., Inc. v. Strauman*, 353 N.E.2d 590 (N.Y. 1976).

43. Restrictive covenants which are not designed to protect confidential information, but which are, instead, merely designed to prevent competitors from hiring a particularly good employee who does not know confidential information, are generally unenforceable. See MILGRIM, *supra* note 2 § 3.02[2][a]. Almost by definition, however, many key employees have day-to-day access to trade secrets and courts therefore tend to enforce restrictive covenants directed to such employees. See McKelvey, *supra* note 41, at 79-82.

44. See, e.g., TEX. BUS. & COMM. CODE ANN. § 15.51(b) (Vernon Supp. 1991). See also MILGRIM, *supra* note 2, at § 3.02(2)[a] (Recommending such a rule where it would not lead to a result “manifestly inequitable.”)

45. See, e.g., *Kadis v. Britt*, 29 S.E.2d 543, 548 (N.C. 1944) (“A consideration cannot be constituted out of something that is given and taken in the same breath — of an employment which need not last longer than the ink is dry upon the signature of the employee, and where the performance of the promise is under the definite threat of discharge. Unemployment at a future time is disturbing — its immediacy is formidable.”); *Martin v. Credit Protection Ass'n, Inc.*, 793 S.W.2d 667, 669 (Tex. 1990) (Where the “employment agreement” consisted entirely of a covenant not to compete and the employment was at-will, court found



tinue for a significant period after entry into the restrictive covenant. As a practical matter, if a restrictive covenant is ancillary to another agreement, recite in the covenant the title and date of the agreement to which it is ancillary.

If the employer intends to require a new employee to sign a restrictive covenant, make sure the employer discloses that fact before the employee accepts the job. Do not let your client wait for a would-be employee to leave a current job, or even move to a new location, before revealing this highly material fact. Otherwise, courts will be most reluctant on equitable grounds to enforce the covenant.<sup>46</sup>

Further, many states require separate, meaningful consideration to be advanced to support a restrictive covenant.<sup>47</sup> Even where this is not an explicit requirement, following this approach is a sensible way of underscoring the importance of the covenant and may lead courts to find enforcement of the covenant more palatable. A promotion, advanced training and significant "perks" may all constitute valuable consideration for these purposes. Traditional approaches also include a significant increase in salary,<sup>48</sup> or stock options,<sup>49</sup> or added responsibilities.<sup>50</sup> A restriction on employment is a significant burden to place on an individual. The consideration advanced for this restriction should therefore also be significant. No peppercorns. And, be sure to accurately recite in the restrictive covenant the consideration which was actually advanced. This precaution may forestall litigation on the issue at a later date.

There are no hard and fast rules for drafting restrictive covenants that will be found to be reasonable in duration and geographic scope of restriction. As for duration, it is clear that a restrictive covenant should not outlive the probable useful life of the trade

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covenant not to compete unenforceable as a matter of law); *Daytona Group of Texas, Inc. v. Smith*, 800 S.W.2d 285, 289 (Tex. Ct. App. 1990); *Super Maid Cook-Ware Corp. v. Hamil*, 50 F.2d 830, 832 (5th Cir. 1931), *cert. denied*, 284 U.S. 677 (1931); *Servo Corp. of Am. v. Pelino*, 158 U.S.P.Q. (BNA) 618, 619 (N.Y. Sup. Ct. 1968) (dictum). *But see* several older cases to the contrary discussed in Michael J. Hutter, *Drafting Enforceable Employee Non-Competition Agreements to Protect Confidential Business Information: A Lawyer's Practical Approach to the Case Law*, 45 ALBANY L. REV. 311 n.164 (1981).

46. *See* discussion in Hutter, *supra* note 45, at 338-39. *See also* *American Air Filter Co. v. McNichol*, 361 F. Supp. 908, 910 (E.D. Pa. 1973).

47. *See, e.g.*, TEX. BUS. & CONN. CODE ANN. § 15.50(1) (Vernon Supp. 1991). *See also* MILGRIM, *supra* note 2, at § 3.05[1][e].

48. *See, e.g.*, *Alexander & Alexander, Inc. v. Wohlman*, *supra* note 13, at 530.

49. In *Gomez v. Zamora*, 814 S.W.2d 114 (Tex. Ct. App. 1991), the Court accepted increased pay and added responsibilities as sufficient consideration but nonetheless refused to enforce the restrictive covenant because it was unreasonably broad.

50. *See, e.g., id.*

secrets.<sup>51</sup> Therefore, where the secret is completely disclosed by a product to be marketed, the restriction should be no longer than the actual release date of the product. If the secret is anticipated to be longer-lived, in fashioning the length of the restriction consider such factors as how complex the secret is (and thus, how likely it is to be forgotten without supporting documentation), and how competitive the industry is (and thus how likely it is that competitive employment would lead to use and disclosure). Ask for no more than your client can show that it truly needs to protect the information.

Framing geographic restrictions can be relatively easy where the employer operates in only a narrow geographic area. Query, however, in a market consisting of very few competitors, all of whom engage in nationwide — or, for that matter, worldwide — marketing, whether a geographic restriction is necessary? Several courts have said no, providing that the scope of activity restricted is not overly broad.<sup>52</sup> An employer seeking to avail itself of such a broad restriction must be armed, however, with evidence showing that the market or field of the employer's business activities truly is nationwide and establishing that a geographic restriction would not afford adequate protection.

Another approach, particularly workable in the customer list context, is to list (either explicitly or by reference to activities for a specified period prior to departure) specific customers upon whom the employee may *not* call for a period of time, regardless of their geographic location.<sup>53</sup>

The scope of activity provision in a restrictive covenant is likely to require the most thought. While a visceral reaction may be that an employee well-versed in corporate secrets should not work for a competitor in any capacity, more often the truth is that the employee should simply not engage in the same activities for the competitor that he most recently engaged in for the past employer. Particularly in large corporations having many divisions, much em-

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51. See Hutter, *supra* note 45, at 332-35.

52. See, e.g., *Harwell Enters., Inc. v. Hein*, 173 S.E.2d 316 (N.C. 1970) (Enforcing two year nationwide non-compete agreement where former employer's business had been nationwide); *Hulsenbach v. Davidson Rubber Co.*, 344 F.2d 730 (8th Cir. 1965) (Enforcing nationwide restriction where disclosure of trade secrets anywhere in the country could jeopardize entire nationwide automotive parts business). See discussion in Hutter, *supra* note 45, at 329-31. See also Harlan M. Blake, *Employment Agreements Not to Compete*, 73 HARV. L. REV. 625, 676-677 (1960). Cf. *Lamb-Weston Inc. v. McCain Foods Ltd.*, 941 F.2d 970 (9th Cir. 1991) (Affirming worldwide injunction against use of trade secret to protect plaintiff's head start in creating a niche for its products).

53. See discussion in McKelvey, *supra* note 41, at 39-41.

ployment by a competitor is not truly competitive employment. In drafting the restrictive covenant, advise employers to think through the specific *activities* that are of the greatest concern and spell them out in the greatest detail possible. For example, a restrictive covenant barring a computer programmer from working for any other computer company for a period of time might well be too general to be enforced as written, and might also be very difficult for a court to reform.<sup>54</sup> By contrast, a provision reciting that the programmer shall not write computer code for, say, petroleum exploration mapping for a limited period might more accurately state the real concern, and thus be more readily viewed as enforceable.

Two caveats: first, if your client elects to give some specificity to the restricted activities, advise them to either update the restrictive covenant as the employee's activities for company change or use a self-executing clause that defines the restricted activity by reference to the employee's activities in a defined final period of employment.<sup>55</sup> A restrictive covenant that does not restrict the employee from engaging in the very activities in which he most recently engaged is of little value. If restrictive covenants are altered over time, additional consideration, which can take the form of additional training and knowledge, should be provided in exchange for the modified restriction. The new consideration, should of course, be properly documented.

Second, in drafting a restrictive covenant, make sure that it is not so specific in describing the employee's current work for the company that the agreement itself discloses trade secrets. Since one purpose of entering into a restrictive covenant is to provide the employee with a document to show his new employer to aid in appropriate assignments, the agreement itself should not defeat the goal of protecting trade secrets.

### E. *Special Issues Regarding Consultants*

The foregoing discussion outlines a prudent course to follow

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54. See, e.g., *H & R Block, Inc. v. McCaslin*, 541 F.2d 1098 (5th Cir. 1976), *cert. denied*, 430 U.S. 946 (1977) (Covenant restricting employee from engaging "in any capacity" of tax preparation business held unenforceable as unnecessarily broad activity restriction; more specific prohibitions should have been spelled out); *Diversified Human Resources Group, Inc. v. Levinson-Polakoff*, 752 S.W.2d 8, 10-12 (Tex. Ct. App. 1988) (Restriction on engaging in placement of any kind of personnel held to be unreasonable and unenforceable restriction on former data processing personnel recruiter; opinion appears to suggest that narrower restriction on activities might have been enforced).

55. For a good working example of the self-executing form, see MILGRIM, *supra* note 2, Appendix C, Form C, ¶¶ A4 & 5, H and I.

with consultants as well as employees. Since many consultants make a practice of offering their services to several companies within an industry, some additional procedures may also be helpful.

First, in interviewing a consultant, make sure your client determines whether the consultant has already worked for competitors. If so, have the consultant promise not to disclose confidential information obtained from other companies. You do not want a trade secret lawsuit to be brought by a competitor contending that the consultant carried its trade secrets to your client.

Next, the employer should determine whether the consultant plans to consult for competitors during the course of the assignment for the company or in the future. If so, determine whether that approach is compatible with the company's plans. If the likely projects for competitors are fundamentally different from those the consultant is being asked to perform for client's company, and the consultant will agree not to take on similar projects, the risk may not be substantial. At a minimum, however, your client should insist that the consultant do no work for a competitor in the same subject area in which he is conducting work for the company.<sup>56</sup>

Be sure to install safeguards that will tell your client who is learning the company's secrets and will give the client veto power over disclosing information to individual consultants. Many consulting firms have multiple employees on staff. While your client may be dealing primarily with one consultant, the trade secrets could just as easily be used or disseminated by another staff consultant who has seen your client's confidential information and goes to work for a competitor. Suggest that your client ask all individuals performing consulting services for the company or reviewing confidential company information to sign a confidentiality agreement.

Depending on the nature of the confidential information at stake, your client may also wish to ask the consultant to enter into a restrictive covenant. If so, follow the requirements of the relevant state law. Determine, also, whether other employees of the consultant or consulting firm are working for or intend to work for competitors. If the answer is yes and your client has decided to use a restrictive covenant, insist that only those specific individuals who

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56. Cf. *Lamb-Weston, Inc. v. McCain Foods, Ltd.*, *supra* note 52, at 972-73 (9th Cir. 1991) (One of the primary ways a competitor learned trade secrets was by hiring plaintiff's consultant to design a helical blade for making curlicue fries while he was engaged in identical work for plaintiff. The court concluded that as a practical matter, disclosure under these circumstances was virtually inevitable.)

have signed restrictive covenants be allowed to work on the consulting effort for your client's company.

Consider whether it is necessary for the consultant to take confidential documents off the client's premises. If the consultant does not take documents from your client's facility, he will not be able to take them to the next assignment. If a consultant will be permitted to remove documents from the company's premises, make sure your client gains agreement in advance on procedures for handling the documents. May they be copied? Must the company be told when any copies are made? May the consultants destroy documents, or must they return them to the company when no longer needed? In short, advise your client to exercise particular care in controlling what outside consultants see and in preventing them from keeping confidential information to share with others.

Using consultants presents an additional concern not usually present in the employer-employee relationship: namely, rights in the consultant's discoveries and valuable writings. The copyright "work-for-hire" doctrine, for example, does not cover most consultant-created works.<sup>57</sup> If a consultant is writing computer software for the company, therefore, your client should enter into a special assignment clause to gain ownership of rights in the software. If the company does not enter into such an agreement, it could later meet the claim that a consultant did not misappropriate the company's information, but merely used his own property.<sup>58</sup>

## II. WHAT TO DO WHEN THE EMPLOYEE LEAVES

### A. *The Exit Interview*

How a company responds to an employee's (or, in some situations, even a consultant's) resignation is of critical importance in determining whether trade secrets will be put at risk and whether resulting negotiations or litigation will be successful.<sup>59</sup>

#### 1. Staffing

Upon being informed of impending resignation, a company

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57. *Community for Creative Non-Violence v. Reid*, 490 U.S. 730, 744-48 (1989).

58. See Roger M. Milgrim, *Who Owns What: Copyrights and Trade Secrets, With Some Reflections on Patents*, in MILGRIM, *supra* note 2, at Appendix T.

59. Caution your client against the approach followed by plaintiff in *Minuteman, Inc. v. L.D. Alexander*, 434 N.W.2d 773 (Wis. 1989). There, the president of the company asserted that he didn't believe two employees who submitted their resignation were really quitting and urged them just to take the day off. They responded by removing more confidential information from the company. While plaintiff's attitude was not a bar to recovery, refusing to take the risk seriously prolonged detection of misappropriation.

should promptly arrange to conduct an exit interview. If the departing employee knows important company secrets, this exit interview should be conducted by the employee's supervisor together with a member of the legal staff or outside counsel. The supervisor will be able to provide details about the proprietary information the employee knows. Further, his presence should lessen the risk that the lawyer will be disqualified from serving as litigation counsel if the matter should later go to trial.

## 2. Preparing for the Exit Interview

Be prepared for the exit interview. It will go more smoothly if, during the course of the employee's work, a file has been assembled containing all confidentiality agreements and restrictive covenants the employee has signed; the employee's initial application and résumé, which can be an indication of what constitutes the employee's general skills, knowledge and experience, as opposed to the trade secrets learned from your company; and detailed job descriptions and evaluations.<sup>60</sup> With this background, the exit interviewers will be prepared to determine what competitive activities are of particular concern to the company as well as what documents the departing employee is likely to have in his possession.

## 3. Purposes of the Exit Interview

The exit interview is not a trial. Maintaining an even tone is very important.<sup>61</sup> Until his resignation, the individual was presumably viewed as a valued employee. Resignation does not turn him into a corporate traitor. It does, however, raise concerns — which may be heightened depending on what is known about the prospective employment — that must be jointly addressed to protect the company's valuable information.

The exit interview should serve three major purposes. First, it should remind the departing employee of his confidentiality obligations and obtain a continued agreement to honor them. Identify for the departing employee examples of confidential information. If practicable, furnish a moderately detailed list of specific categories of information which the departing employee has seen, so there will

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60. For a more extended discussion of the information that should be kept in the personnel files of employees who gain extensive exposure to trade secrets see Victoria A. Cundiff, *How to Prepare Now For Your Next Trade Secrets Case*, 1 INTELLECTUAL PROPERTY LAW 239 (1991).

61. See *Electro-Craft Corp. v. Controlled Motion, Inc.*, *supra* note 18, at 890 (Noting that far from being an informative guide to the Company's legitimate trade secret concerns, the exit interview had been primarily an exercise in intimidation.)

be no lingering doubt as to whether the company views that particular information as confidential.<sup>62</sup> Many companies formalize this portion of the exit interview by asking the employee to sign a written statement acknowledging that confidential information of the company may not be used or disclosed outside the company, unless it has become generally known. This document is useful even if the employee has already signed a confidentiality agreement, because it underscores that earlier agreement's importance.<sup>63</sup>

Second, the exit interview should be the occasion for obtaining from the employee all confidential documents in his possession. If some of these documents are off the premises, the employee should itemize those documents and agree in writing to return them, together with all copies, by a specified date. Explain that it is in the employee's interest, as well as the company's, for all confidential documents to be returned so there will be no possibility for confusion or misunderstandings later on.

The third purpose of the exit interview is to give the company sufficient information to determine whether the new employment is likely to put the company's trade secrets at risk. Determine the name and address of the new employer. Ask the employee what he expects to be doing in the new position. While many employees may be reluctant to give a comprehensive description of their new duties, perhaps in part out of concern that so doing may improperly expose their new employer's trade secrets, the departing employee should at a minimum be asked to provide a functional listing of his proposed activities.<sup>64</sup> An example of such a list might be:

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62. If a listing is provided, however, that is less than comprehensive, be sure to identify the list as non-exclusive. See *Schalk v. State*, 1991 Tex. Crim. App. LEXIS 201 (Oct. 2, 1991) ("Because the exit interview agreement covers trade secrets, and the exit form itself states that it is non-exclusive, listing of the specific programs was not a requirement to maintain trade secret status.") This approach of identifying general categories of proprietary information rather than providing an exhaustive list might be taken to prevent the exit interview from becoming a refresher course for the departing employee.

63. See *Schalk v. State*, *supra* note 17, at 447-48 (Fact that a member of the legal department of the company conducted an exit interview with all employees whose jobs involved sensitive proprietary and confidential information to re-emphasize non-disclosure responsibility upon termination viewed as significant factor establishing in criminal trade secret case that information was secret and intended by the owner to remain so.)

64. One way to attempt to ensure that such information will be forthcoming is for the client to enter into a contractual provision requiring the employee to keep the first employer advised of subsequent employment for some period, say a year or two. If the employee complies, the information he provides can help the first employer spot a potential problem and get it under control. If the employee does not comply but the first employer learns of questionable employment, the failure to comply with the duty to notify could prove helpful evidence in an action to enforce the employer's rights.

In my new position I shall be purchasing raw materials used to manufacture molded plastic products. I shall also be supervising an in-house staff in identifying and developing new applications for my new employer's existing plastic molding technology.

Such a description can assist the current employer in determining potential overlap in activities and evaluating the actual risk such overlap may pose.

Ask for any letters or other documents from the new employer outlining job responsibilities. While the employee may choose to redact portions of such documents, such as terms of employment, the new employer's description of the employee's position can be the best evidence of what the employee will in fact be asked to do.<sup>65</sup>

If the new employer is not already known to you, tools such as NEXIS® or other data bases containing industry newspapers and magazines and Dunn & Bradstreet reports can help determine whether trade secrets are likely to be at risk. If the new employer is a start-up company, check to see who the incorporators and officers are. If the new company is composed primarily of former employees, consider whether it has been established to exploit your client's trade secrets.

Refusal to give information about the proposed new employment may indicate potential trouble, although not necessarily. Often an explanation of why the current employer is concerned and a suggestion that everyone should want to put the matter to rest now rather than prolong any uncertainty may lead to a candid discussion.

Finally, ask the employee if he has any questions or reservations about confidentiality issues. Do not let him leave the company confused about his obligations.

#### 4. Documenting the Exit Interview

To prevent later misunderstandings, prepare a detailed statement of the exit interview, concentrating on the employee's description of his new job. Ask the employee to sign the statement. An employee may be reluctant to sign a misleading statement. If later events show that he did, the initial misstatement may make it more

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65. If possible, try to learn general financial terms of the new employment, since a substantial increase in salary can be an indication that the new employer is paying for trade secrets and not merely general skills, knowledge and experience. *See, e.g.,* B.F. Goodrich Co. v. Wohlgemuth, 192 N.E.2d 99, 104 (Ohio Ct. App. 1963), where a substantial increase in salary coupled with the employee's statement that "loyalty and ethics had their price; insofar as he was concerned, [the new employer] was paying the price" served as powerful evidence that the employee would be likely to use or disclose trade secrets in his new position.



likely that a court will grant relief to prevent use or disclosure of confidential information.<sup>66</sup>

### B. *Evaluating the New Employment and Assessing the Risk*

Once the employee has outlined his prospective job activities, consider with your client the plausibility of the new job description. A statement that as the head of a two person research and development department for a competitor, the employee will perform absolutely no work on competitive products, for example, is inherently unlikely.

Then consider whether the planned activities realistically pose a threat to the company's reasonable interest in protecting its trade secrets and confidential information. The focus should not be so much on job labels as on activities. In what activities did the employee actually engage in the former position? What activities does he intend to assume? To what extent do those new activities place valuable secrets at risk?

#### 1. Employees With Restrictive Covenants

If the employee entered into a restrictive covenant, focus, of course, on whether the new employer is a competitor as defined under that agreement, and whether the new activities come within those prohibited by the restrictive covenant. Then consider, further, whether engaging in these activities for this particular new employer is indeed likely to put the company's confidential information at risk. Heading up a team to develop new microprocessor technology, for example, presents a more serious problem if the first employer has a new microprocessor product just ready to go to market than if the first employer has decided to leave that product field.

If the company determines that the proposed activity will violate the restrictive covenant, it should so inform the employee. The matter may be resolved with the employee alone without involving the prospective employer. The employee may decide to withdraw from the proposed employment or ask for a more suitable job assignment.

If informal resolution cannot be reached with the employee, or if that resolution requires the agreement of the new employer not to

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66. Cf. *Schalk v. State*, 767 S.W.2d at 449, a criminal trade secret case where fact that employee signed a document entitled Trade Secret Listing for Termination of Employment acknowledging his non-disclosure responsibility and the confidentiality of his work held to be evidence that employee's copying of trade secrets had been knowing.

involve the employee in particular activities, it is generally wise to contact the new employer advising it of the restrictions.<sup>67</sup> Perhaps some compromise can be reached permitting the employee to work for the new employer as long as the new employer agrees that the employee will not be asked to perform certain activities. Presenting "sanitized" descriptions of the kinds of activities in which the employee has been engaged can be extremely helpful in making a responsible new employer aware of the risks and the need for the employee to steer clear of certain assignments.

In making such a presentation to the new employer, it should be emphasized that the restrictions are solely on the *employee's* activities. The new employer is, of course, free to pursue any activities, competitive or not, so long as it does not involve the employee in specified activities. Making this distinction clear is often crucial to reaching an amicable resolution.

Sometimes, however, the only way to protect trade secrets and confidential information is to insist upon full compliance with a restrictive covenant prohibiting any competitive employment for a period of time. If the new employer's business is highly competitive with that of the former employer, and the proposed activities are extremely similar, it may simply be impossible for the employee to do any work with the new employer without utilizing confidential information.<sup>68</sup> In this case, the former employer should so inform the employee and provide the proposed new employer with a copy of the restrictive covenant stating that there is no room for compro-

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67. Contacting the new employer may lead to early, inexpensive resolution of the problem. It may also stop the clock on a claim of laches. Further, judges often seem to be persuaded that a problem is indeed serious if the parties initially tried to work it out but were unable to do so. Some judges feel that it is unfair to take such a matter to court without first putting the new employer on notice of the restriction. There are, of course, exceptions to this rule, principally if it appears clear that the new employer is indeed endeavoring, or was perhaps even created to, misappropriate trade secrets. *See generally* MILGRIM, *supra* note 2, at § 5.04.

68. *See, e.g.,* Electronic Data Sys. Corp. v. Powell, 524 S.W.2d 393, 398 (Tex. Ct. App. 1975) (Appellate court determined that only enforcement of restrictive covenant would fully protect confidential information since permitting the competitive employment but restricting use of confidential information was "intrinsically unenforceable so long as he is employed by a competing employer in the health-care field. It would indeed be difficult to determine if [the employee] were imparting his specialized knowledge to [the new employer] until [the new employer] markets a product resembling closely EDS's system.") *See also* Williams v. Compressor Eng'g Corp., 704 S.W.2d 469, 472 (Tex. Ct. App. 1986) (Enforcing covenant where "Even when he operates in the best of good faith, the former employee working in a similar capacity can hardly prevent his knowledge of his former employer's confidential methods from showing up in his work."); Weed Eater, Inc. v. Dowling, 562 S.W.2d 898, 902 (Tex. Civ. App. 1978).

mise. If the prospective employer does not agree, there is generally no choice but to litigate.

Should litigation ensue, it is prudent, and may be legally necessary, for the former employer to agree to compensate the employee until he is able to find work that does not violate the restrictive covenant.<sup>69</sup> Accordingly, it may be sensible to make such an offer as part of the employer's "going in" position in dealing with the former employee, because it tends to establish that the employer is reasonable. Some restrictive covenants are even expressly conditioned on a wage maintenance clause to make up for any shortfall the employee may suffer due to the restriction.<sup>70</sup>

## 2. Employees Without Restrictive Covenants

The basic analysis for departing employees who have not signed restrictive covenants is the same. Will the proposed activities place the company's confidential information at risk? If so, consider all reasonable means to protect that information, starting with gaining agreement from the employee and the prospective employer that the employee will not use or disclose your client's trade secrets or confidential information and will not be asked to do so.

Even where the employee has not signed a restrictive covenant, in some instances the new position may be so similar to the former position that disclosure of the former employer's trade secrets will be inevitable. In such a case, ask for agreement that the employee will be kept out of specific activities for a period of time. If the matter goes to litigation, a court may be persuaded, even absent a restrictive covenant, to grant an injunction barring the employee from working in a specific position which will inevitably cause him to (or create a high likelihood that he will) use or disclose his former employer's trade secrets.<sup>71</sup>

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69. *Cf. Emery Indus. v. Cottier*, 202 U.S.P.Q. (BNA) 829, 836 (S.D. Ohio 1978).

70. *See MILGRIM, supra* note 2, at Appendix C, Form C ¶ J; *Gillette Co. v. Williams*, 360 F. Supp. 1171, 1174 (D. Conn. 1973).

71. *See, e.g., FMC Corp. v. Varco Int'l, Inc.*, 677 F.2d 500, 505 (5th Cir. 1982) (Enjoining new employer from "placing or maintaining [employee] in a position that poses an inherent threat of disclosure or use of [former employer's] trade secrets" and finding that even in the absence of restrictive covenant, some positions must be completely off limits given the inherent likelihood of disclosure.); *Air Prods. & Chem., Inc. v. Johnson*, 442 A.2d 1114, 1124 (Pa. Super. Ct. 1982) ("It would be impossible [for employee] to perform his managerial functions in on-site work without drawing on the knowledge he possesses of [his former employer's] confidential information."); *Allis-Chalmers v. Continental Aviation & Eng'g Corp.*, 255 F. Supp. 645 (E.D. Mich. 1966); *E.I. duPont de Nemours & Co. v. American Potash*, 200 A.2d 428 (Del. Ch. 1964); *B.F. Goodrich Co. v. Wohlgenuth*, 192 N.E.2d 99 (Ohio Ct. App. 1963).

### C. *Monitoring the Risk*

It is always good practice to be aware of what the competition is doing. When a key employee who has been steeped in your client's trade secrets leaves to work for a competitor, closely scrutinizing apparent shifts in the competitor's activities becomes even more important. Your client's sales force or distributors can be an extremely useful, current source of information — but only if their observations are channeled to a central office so that the significance of competitors' activities can be evaluated from a trade secret standpoint. The legal department may well be an appropriate focal point for such information.

Advise your client to be alert for the following: announcements of new product lines not previously identified; new marketing strategies suddenly adopted; new, unanticipated business ventures; or large sales to the client's customers. Any of these developments may well have been underway before the employee left and may have continued without his input. But, they can be indications that trade secrets have been misused. Identifying a problem early is an important strategy, both to prevent a claim of laches and, more important, to stop the misuse while it is still feasible to do so.

If you detect such activity, negotiation may well be an appropriate solution. Negotiation may also pave the way for informal discovery, as, for example, when a competitor offers a look at documentation showing that the apparently new activities had been underway for some time. If evidence of misuse appears to be clear, however, and preliminary efforts to negotiate are futile, litigation may become essential. The more thorough your corporate intelligence, the stronger such a lawsuit will be.<sup>72</sup>

### D. *Litigation*

Litigation to obtain an injunction restricting the former employer or consultant from engaging in certain employment activities is generally a last resort. Not only is it costly and taxing, but it may even place trade secrets at risk.<sup>73</sup> Sometimes, however, there is no

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72. Conversely, unsupported allegations that the former employee possessed of trade secrets "threatens" to use or disclose them are too vague to lead to prompt relief and could even subject the former employer to sanctions under Rule 11 or a state law counterpart.

73. See, e.g., *Litton Systems, Inc. v. Sundstrand Corp.*, 750 F.2d 952 (Fed. Cir. 1984); *Package Machinery v. Haysden Manufacturing*, 164 F. Supp. 904, (E.D. Wis. 1959), *aff'd*, 266 F.2d 56 (7th Cir. 1959); *MBL (USA) Corp. v. Diekman*, 445 N.E.2d 418 (Ill. App. Ct. 1983). All of these cases note or specifically impose burden on trade secret owner to specifically identify the trade secrets in suit. For a discussion of ways to lessen the risk that such litigation disclosure will lead to misappropriation or use of trade secrets, see MILGRIM, *supra*

other choice. If litigation is necessary, it must be pursued quickly once the employee has announced his intention to take problematic employment. Otherwise, there is a real risk of being too late to preserve trade secrets.

### 1. Early Preparation is Essential

In anticipation of the possibility of litigation, assist your client in assembling documentation establishing that the company has valuable confidential or trade secret information, that the employee was advised not to use or disclose it, and that there is substantial risk that use or disclosure will occur.<sup>74</sup> Collect all signed agreements, together with evidence of adequate consideration. Retrieve all document logs and assemble a sampling of the confidential information the employee has received. Marshall all necessary witnesses as soon as possible. Plan a succinct presentation establishing what the trade secrets at issue are and why they are valuable.<sup>75</sup>

Consider which forum is likely to provide a hearing the most quickly. Think through and prepare a proposed confidentiality order<sup>76</sup> and a request for expedited discovery. Once litigation is set into motion, being unable to move quickly may cripple the case.<sup>77</sup>

### 2. Know What You Want and Get What You Need — Carefully Tailoring the Prayer for Relief

Whether you are seeking to enforce a restrictive covenant or attempting to prevent wrongful use or disclosure in the absence of such a covenant, the chances of success are far greater if you deter-

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note 2, § 7.06[1][c]; Victoria A. Cundiff, *Keep It Secret: How to Protect Your Trade Secrets During Litigation*, 1 INTELLECTUAL PROPERTY LAW 247 (1991).

74. Standards for injunctive relief in trade secrets cases in various courts are set forth in MILGRIM, *supra* note 2, at § 7.05.

75. For a more detailed discussion of the evidence to be assembled, see Victoria A. Cundiff, *How to Prepare Now for Your Next Trade Secrets Case*, 1 INTELLECTUAL PROPERTY LAW 239 (1991).

76. Some states have rules greatly limiting the extent to which court records may be sealed. See, e.g., Sealing Court Records, TEX. SUP. CT. R. 76a. These rules generally contain an exception, however, for discovery in cases originally initiated to preserve bona fide trade secrets or other intangible property rights. See, e.g., TEX. SUP. CT. R. 76a(2)(c). The Uniform Trade Secrets Act provides that in any action under the Act, a court "shall preserve the secrecy of an alleged trade secret by reasonable means" including protective orders, *in camera* hearings, sealing the record and prohibiting those involved in a litigation from disclosing an alleged trade secret without court approval. Uniform Trade Secrets Act § 5.

A party seeking to seal the record is well advised to prepare a confidentiality order and a brief affidavit in support of its entry establishing the valuable and proprietary nature of the information at issue. This affidavit will also help give the court a preview of the entire case.

77. For a comprehensive guide to issues arising in trade secret litigation, see generally MILGRIM, *supra* note 2, at Chapter 7.

mine what relief is essential and ask for nothing further. Remember that no matter which legal theory is pursued, the ultimate test the court will apply is what restriction on the employee's activities is reasonably necessary. Asking for more may well imperil your client's legitimate entitlements, or may result in an order that, while satisfying on paper, is unenforceable in practice.

Overreaching may also have adverse financial consequences. Some state statutes,<sup>78</sup> as well as the Uniform Trade Secrets Act,<sup>79</sup> permit courts to impose attorneys fees on parties asserting misappropriation in bad faith or overreaching in seeking injunctive relief.

If disclosure appears to have already occurred, seek an injunction ordering return of the information and prohibiting use of the secret in addition to seeking damages. Be sure to determine who else has learned the secret and, in appropriate cases, seek an injunction preventing these third parties from continuing to use it.

### 3. Special Trial Strategies For Enforcing Restrictive Covenants

Some states allowing restrictive covenants permit the court to "blue pencil" overly restrictive covenants or even reform them, if the court determines — at the moment enforcement is sought — that the contract imposes a greater restraint than necessary to protect the business interests of the employer.<sup>80</sup> In such states, be sure to plead, in the alternative, that the court should reform the contract if necessary to make the covenant enforceable. If the employer does not request such reformation, even if argument and evidence is later presented showing that reformation would be possible, the employer may be held to have waived its right to have the trial court reform the covenant.<sup>81</sup>

What if the restrictive covenant has already expired, or is about to, by the time the trade secret misuse is discovered? Consider seeking not only an injunction against continued use and disclosure and damages, if appropriate, but also, as a remedial measure, an injunction restraining competitive activity for a period beyond expiration of the restrictive covenant. At least one court has held that such relief is within the equitable power of the court.<sup>82</sup>

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78. See, e.g., TEX. BUS. & COM. CODE ANN. § 15.51(c) (West Supp. 1991).

79. Uniform Trade Secrets Act § 1.

80. See MILGRIM, *supra* note 2, at § 3.02[2][a].

81. See, e.g., Gomez v. Zamora, 814 S.W.2d 114 (Tex. Ct. App. 1991); Daytona Group of Texas Inc. v. Smith, 800 S.W.2d 285, 290 (Tex. Ct. App. 1990).

82. Premier Indus. Corp. v. Texas Indus. Fastener Co., 450 F.2d 444, 448 (5th Cir. 1971).

#### 4. Criminal Prosecution

Finally, in egregious cases where a former employee has misappropriated technical information, an employer may wish to explore criminal prosecution.<sup>83</sup> This approach is best suited to situations in which an employee has physically misappropriated tangible trade secrets, since many state criminal statutes require theft of tangible property before misappropriation is actionable.<sup>84</sup>

This approach affords the possibility of obtaining a search warrant and seizing the trade secret material.<sup>85</sup> While prosecution of a criminal action may well delay resolution of a civil action, as a practical matter in an appropriate case, it may provide the employer precisely the relief it needs — i.e., non-use of the trade secrets — at minimal cost. A conviction should also give rise to collateral estoppel in a subsequent civil action.

### III. CAREFUL HIRING — HOW TO PREVENT A NEW EMPLOYEE FROM DELIVERING EITHER TRADE SECRETS OR A LAWSUIT

What about counseling the new employer? The foregoing discussion may make some employers leery of ever hiring employees who have worked for competitors. In most cases, this approach is an overreaction. Most courts have spoken clearly in favor of free movement of employees from employer to employer. This pronouncement from the Texas Supreme Court is typical.

We recognize that a man's talents are his own. Absent clear and convincing proof to the contrary, there must be a presumption that he has not bargained away the future use of those talents. Professor Williston referred to this concept in his authoritative work on contract law, and it is a fitting summary of the nearly forgotten notion:

A man's aptitudes, his skill, his dexterity, his manual or mental ability — all those things which in sound philosophical language are not objective, but subjective — they may and they

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83. For a discussion of state criminal statutes, see MILGRIM, *supra* note 2, at § 1.10[1]. For a comprehensive analysis of federal trade secret criminal cases, see M.A. Epstein, *Criminal Liability for the Misappropriation of Trade Secrets*, in MILGRIM, *supra* note 2, at Appendix B-5. Federal statutes having applicability to trade secret misappropriation include the Federal National Stolen Property Act, 18 U.S.C. § 2314 (1976).

84. See, e.g., N.Y. PENAL CODE §§ 155.30 and 165.07 (West 1992). But cf. Wisc. STATS. § 943.70(2) (1991) making it a criminal offense to, without authorization, access data, computer programs, or supporting documentation, as well as to copy, take possession of, or disclose such information.

85. See, e.g., Schalk v. State, 767 S.W.2d 441.

ought not to be relinquished by a servant; they are not his master's property; they are his own property; they are himself. There is no public interest which compels the rendering of those things dormant or, sterile, or unavailing; on the contrary, the right to use and to expand his powers is advantageous to every citizen, and may be highly so for the country at large.<sup>86</sup>

One intent on hiring a competitor's employee should, however, observe special precautions.

#### A. *What Is Your Client's Motivation?*

The foregoing discussion should make clear that when hiring a new employee, one must be careful to safeguard the prior employer's trade secrets. Further, if the former and new positions are sufficiently similar, it may be impossible for the employee to perform his new job without jeopardizing the former employer's legitimate interests. In other words, if your client hires an employee who used to work with a competitor as a chemist, your client is entitled to expect that the employee has a general theoretical and practical knowledge of chemistry which he can use on your behalf. If the company plans on releasing a new product directly competitive with one the employee worked on for a competitor, however, it is not entitled to direct — or even permit — the employee to make use of the details of what he learned with the former employer. It would be far better to assign the employee to another task where the company could take advantage of his chemistry background but not his knowledge of the competitor's trade secrets.

A useful question to pose in counseling a client considering hiring an employee who used to work for a competitor is whether the company would be interested in hiring the individual if his prior experience had been with a different employer. If the answer is no, this should be a signal to slow down and proceed — if at all — only with extreme care to protect trade secrets. If litigation ensues, this will be a critical area for inquiry.

#### B. *Recruiting*

When your client hires a new employee, make sure that the recruiting efforts are not targeted against competitors.<sup>87</sup> Further, in anticipation of any questions that may later arise if your client hires

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86. *Hill v. Mobile Auto Trim*, 725 S.W.2d 168, 172 (Tex. 1987). To the same effect, see also *ILG Indus. v. Scott*, 273 N.E.2d 393, 396 (Ill. 1971).

87. *Cf. E.I. duPont de Nemours & Co. v. American Potash*, 200 A.2d 428 (Del. Ch. 1964) (Fact that competitive new employer recruited in Wilmington, Delaware, site of com-



a competitor, advise your client to maintain complete files showing how the company and the employee came together. Did the employee submit an unsolicited resumé? Did a recruiter present him as a candidate? Did your client commission a search? Advise your client to save all relevant documentation so that if challenged, it can establish the *bona fides* of the search efforts.

### C. *Interviewing*

If your client interviews a competitor's employee, advise your client to establish at the outset that the company does not want to learn the details of work for the competitive employer. (By the same token, advise the client not to disclose confidential details of the company's own work. It is possible that the applicant is a spy for the current employer; in any event, confidential information should not be disclosed to any applicant except under a confidentiality agreement.) The client should proceed to determine whether the employee has any restrictions on competitive employment. Obtain copies of all agreements the employee has with his current employer. Determine whether the agreements appear to be enforceable and, if so, whether your company will be in a position to permit the employee to honor his agreements.

If the company's needs and the employee's obligations are at odds, consider discussing the matter with the current employer. If the employee has a restrictive covenant which by its literal terms would cover employment with your client's company but which appears to be overbroad given the nature of the work he will actually be performing, early communications with the former employer may lead to a negotiated modification to accommodate all parties' needs.

### D. *Hiring the New Employee*

Establish at the outset that while the company intends to build upon the employee's existing skills, knowledge and experience, your client's company does not want the employee to use or disclose confidential information learned while at his former employer. It is best to document this advice in writing, signed by a company official and by the new employee. Advise your client to make it clear that if the new employee believes he is being asked to engage in work that will, or will be likely to, jeopardize his confidentiality

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petitor DuPont's plant, for employees for a new California plant evidence of new employer's desire to obtain DuPont's trade secrets).

obligations to his former employer, he should immediately apprise his supervisor and the legal department.

A discussion of the employee's confidentiality obligations to his former employer can be a natural introduction to discussing his confidentiality obligations in his new position. Be sure to follow the procedures outlined in Part I, *supra*, to advise the new employee of your client's confidentiality needs.

#### E. *Conferring With the Former Employer*

In some circumstances, it may make sense to consult with the former employer advising what work the employee will be performing in his new position, and what precautions your client has taken to prevent disclosure of the former employer's trade secrets. Such an approach may be particularly appropriate if the former employer is a respected member of the business community whose goodwill your client wishes to retain, or if the former employer is known to be particularly litigious. Explaining at the outset the precautions being taken to prevent disclosure of trade secrets can help to rebut any claims the former employer may assert in a court seeking expedited relief.

#### F. *Seeking a Declaratory Judgment*

After thorough investigation, it may appear that the employee either did not obtain trade secrets from his former employer or will not be jeopardizing them in his new position. The former employer, however, may have given a clear indication that it intends to challenge the new employment. In such a case, it may be appropriate for your client to commence an action seeking a declaration that engaging in the new employment is not violative of any obligations the employee owes to his former employer.<sup>88</sup> This approach can quickly dispel any cloud over the new employment. Moving for a declaratory judgment will also allow the employee, rather than the former employer, to determine the time and place of any legal action.

### CONCLUSION

Departing employees need not be couriers delivering their former employer's trade secrets to competitors. By careful planning, employers can ensure that their employees gain a clear understanding of what information must be protected both during and after

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88. *See, e.g., Johnson v. County Life Ins. Co.*, 300 N.E.2d 11 (Ill. App. Ct. 1973).

employment. By determining what specific activities can put confidential information at risk, and agreeing that employees shall not engage in those activities but remain free to engage in all others, employers (both former and current) and employees alike can protect their rights and prevent trade secret misuse.