

Non-Compete Agreements and Business Secrets

A business that deals with tangible goods can lock its doors at night to prevent the theft of its business property. But what if a business deals with ideas, secrets and proprietary information that cannot simply be locked up to prevent their theft? What if there are other people, such as employees, that need to have access to that information? How can a business such as this protect itself? This article discusses one practice used to protect a business' intellectual property, including its trade secrets, from improper use by an employee. Principally, we address the issue of how an employer can limit a departing employee's ability to use his employer's secrets or skills learned for the benefit of a competitor. As technology has developed and become easier to use, employees have greater access to a company's sensitive information and encounter less difficulty in its misappropriation. As such, an employer's ability to protect its secrets can become difficult to control. Additionally, as businesses become more global, competition by an employee using a past employer's business secrets is harder to track. Therefore, employers will often seek to control who an employee can work for after he leaves the company, so that the employee's ability to work at a competitor is limited. This type of control is effected by requiring an employee to sign a non-compete agreement as a term of employment. In this agreement, the employee promises not to work for a competitor (either specifically defined, or generally) of his employer for a specified period of time in a defined geographic area. Although the agreements are disfavored by courts, as they restrict an individual's right to be gainfully employed, a non-compete agreement will be enforced if (i) it reasonably protects the rights and interests of the employer, (ii) is not overbroad, and (iii) is prepared and executed properly, as discussed at the end of this article. Although a court may eliminate those provisions of a non-compete agreement that are improper, an approach commonly referred to as "blue-penciling" the agreement, courts are reluctant to do so as they do not want to be seen as rewriting the parties' agreement. If the court sees the agreement as too restrictive, and

refuses to blue-pencil, the agreement will be disregarded and of no affect.

Many times, the non-compete agreement will be joined with a non-solicitation agreement, which prohibits the solicitation of the employer's customers by the departing employee.

As mentioned, some issues that a court will look at include (i) the employer's interests to be protected, (ii) the duration and scope of the agreement, and (iii) how the agreement is implemented.

A. Only the Employer's Legitimate Interests Are Eligible for Protection

In a typical situation, an employer cannot reasonably expect to protect every element of its business, and a departing employee cannot be forced to forget everything learned on the job and to not use any of what he has learned at another employer. It is only legitimate secrets and true confidential information that are eligible for protection. The fact that an employer trained an employee in some specialized area of work can support a non-compete agreement. The employer can expect that the information and skills taught to the employee, at the employer's expense and for the employer's business, should not be used to enrich a competitor. Additionally, that the employee played a unique role with the employer, either through the employer's training or by some specialized skill, can help to enforce a non-compete agreement.

A business must keep in mind, however, that even legitimate secrets will not be protected if the employer did not itself take proper steps to secure them within the operations of the business. It is a good idea to outline and define to some degree the trade secrets and confidential information used by the employer at the time the employment begins. This defeats an employee's argument that the employer had no secrets or that such secrets were never designated as such.

B. Duration

A non-compete agreement cannot normally restrict competition for too long a period of time. It is rare that a court will prevent

...legitimate secrets will not be protected if the employer did not itself take proper steps to secure them within the operations of the business.

Continued from previous page

an individual from working for a long period of time, particularly where the employee is experienced in only one type of work. Nevertheless, the more specialized the employee's skill and position while at the employer, the greater latitude the employer will have in enforcing the agreement. Many agreements are for a period of between one and three years. The length of time before a secret becomes stale is also relevant to the length of the non-compete agreement.

C. Geographic Area

An employee's area of forbidden employment cannot be excessive. In setting the geographic area, consideration is given to the employee's skills and role played at the employer, and the size of the marketplace of the business. The limitation on geographical scope does not always sit well in today's global marketplace as it is not unusual for a business to conduct its business world-wide, and have a legitimate interest in restricting competition on a global scale. Nonetheless, in an attempt to restrict a bigger area is not necessarily better, even where the employer's business covers large geographical areas.

D. Implementation of the Non-Compete Agreement

The best time to have an employee execute a non-compete agreement is when that employee is hired, and where the non-compete is part of the terms of hiring. This practice increases the likelihood that the non-compete agreement will be enforced by the courts. If that is not possible, it is critical that the employee receive something of real value, a bonus or extra vacation, in

exchange for executing a non-compete agreement. Additionally, non-compete agreements that are executed as part of the sale of a business, where the seller agrees not to compete with the buyer, are also more readily enforced.

If an employee's job is terminated without cause, enforcing the non-compete can become more difficult. It is likely that the court will examine the basis for the termination, and favor the employee's position over the employer's. It may be an uphill battle even if the termination is for cause. Courts have sometimes voided a non-compete agreement upon an employee's termination.

E. Alternatives

One method to increase the likelihood of protecting the employer is for the employer to provide payment or benefits, which the employer is not otherwise obligated to pay, in exchange for a limited-time promise not to compete. If the employee competes, the promised payment is forfeited. Essentially, this is an agreement between the employer and departing employee. So long as the employee's decision is not forced, and the employee is not fired, courts have far less hesitancy enforcing these types of non-compete agreements, even when the forfeiture is drastic. Although not as attractive as a non-compete, it may be an employer's most practical approach.

Feel free to call us at (212) 765-4567 or contact us at info@thesilberlawfirm.com to discuss the details of your non-compete situation, or any other legal matter.

Recent Changes to Adverse Possession Law

Recently, Governor Patterson signed a law which materially changes existing adverse possession law. In a recent newsletter (http://www.thesilberlawfirm.com/pdfarticles/Winter_2007.pdf), we discussed issues relevant to claims of adverse possession. Part of an adverse possession claim requires that the adverse possessor make open and notorious use of a neighbor's land, under a claim of right to the disputed parcel. At the time we published our article, fencing in the area, planting shrubbery, or maintaining the piece of property could satisfy the requirement that the use be open and notorious. Changes to the Real Property Actions and Procedure Law, enacted this Summer, changes this. The newly revised law requires that the adverse possessor's open and notorious use be more than the *de minimus* use of maintenance or fencing. The revised requirement specifically

excludes *de minimus* improvements, and seems to demand that the adverse possessor make structural or other substantial changes to the disputed land.

Also changed is the intent of the adverse possessor. Until now, the adverse possessor could acquire the land through adverse possession even though he knew that it was not his, so long as he treated the land as if it were. The new law now requires that the adverse possessor believe that the disputed land is his.

Because of these changes, the precise use required of the adverse possessor awaits court interpretation. What is certain, however, is that these changes alter the adverse possession litigation landscape. We would be happy to discuss this issue further, and to discuss the particulars of your adverse possession matter. Feel free to call us at (212) 765-4567 or contact us at info@thesilberlawfirm.com.

This publication is a service to our clients, colleagues and friends and is designed to provide general information about the covered topics. The contents of this newsletter should not be considered legal advice nor does receiving this newsletter constitute an attorney-client relationship between The Silber Law Firm LLC and the recipient. Readers are advised not to take any action based on the material contained on this newsletter without consulting an attorney.