

NEWS & INSIGHTS

Protecting Trade Secrets in the Event of an Employee Departure

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The latest statistics indicate that, on average, a college graduate will change jobs 10-12 times in his or her career. Employees frequently move between companies in the same industry. With advances in technology, like enhanced cameras on cell phones, it has become easier and easier for employees to take trade secrets with them to other companies. Therefore, it is critical to form fair and legally enforceable policies to protect knowledge, information, and trade secrets in the event of an employee's departure.

In recent years, companies such as Intel, Motorola, and Walmart have all been party to lawsuits involving the theft of trade secret information. All of these cases show that protecting [intellectual property assets](#) is key when success

hinges upon the competitive advantage derived from trade secrets.

What is a trade secret?

The first step in protecting your company's valuable information is to understand what a trade secret is. The definition of "trade secret" is set forth in the Economic Espionage Act and in the applicable statutory or case law of each state. One definition adopted in many states, including Pennsylvania, is that provided in the Uniform Trade Secret Act. That model statute describes a trade secret as:

"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 subject of efforts that are reasonable under the circumstances to maintain its secrecy." Under this definition, many types of information can be regarded as a trade secret. The information must derive some value from not being generally known, and the information must be subject of reasonable affirmative actions to maintain its secrecy."

How can trade secrets be protected?

In 2016, the Defend Trade Secret Act was signed into law. This act creates a federal cause of action for trade secret misappropriation. In addition, it protects whistle blowers from retaliatory accusations of trade secret misappropriation when the employee is reporting a violation of a law.

A company is not able to adequately protect its trade secrets without the cooperation of the company's employees. In most cases, the company will need to disclose many of its trade secrets to carry out its business. When it is necessary for an employee to know trade secrets, the company should advise each employee to whom the trade secret will be disclosed that they are being entrusted with the company's trade secret and valuable intellectual property assets. In such cases, the company should require the employee to sign an agreement or covenant that precludes the improper use or disclosure of the company's proprietary information in any manner that is adverse to the company's interests both during and after the employee's employment period. The agreement should also include, in appropriate instances, prohibitions against competition, disclosure, soliciting the company's employees, ownership interest in companies engaged in related businesses, and/or moonlighting. As a general rule, courts look unfavorably upon clauses that restrict the future employment of employees. However, in most cases an appropriate agreement, clause, or covenant can be drafted to be legally enforceable while protecting trade secret rights of the owner.

Prior to implementation of any type of agreement or covenant, an employer must determine if the nature of the business warrants these types of covenants. In some industries, individuals may refuse to sign any type of covenant. Therefore, business reality eliminates the possibility of implementing these types of covenants.

If the decision is to implement covenants, it is important to determine what level of employee will be required to

execute the covenants. For instance, a simple agreement to keep information confidential during the period of employment and after should be executed by all employees. A covenant not to compete should only be used in circumstances in which the knowledge acquired by the employee is critical to the success of the employer and the information cannot be protected by other means. A covenant not to compete should be drafted carefully because courts view covenants not to compete with much disfavor. In fact, it is important to note that some states prohibit or limit the enforceability of covenants not to compete.

Are the documents we have in place valid and enforceable?

In many states, including Pennsylvania, to determine if a covenant not to compete will be held valid and enforceable, several factors must be examined. These factors include:

- **Are the restrictions reasonable?** The time and geographic limitations must be reasonable in light of the nature of the business and the secrets entrusted to the employee. As a general rule, the shorter the time restrictions and the more reasonable the geographic locations, the more likely the court will enforce the covenant without modification.
- **Does the employer have a legitimate economic interest to protect and does the restriction relate to the employer's interest?** The interest can be pricing information, customer lists, plating solutions, secret formulas, customer relations, or the like. An example of a covenant which relates to the protectable interest would be a non-solicitation clause for salespeople, as the salespeople know and have relationships with customers and this can be used to the detriment of the previous employer.
- **Is an undue hardship placed on the employee?** An employee must be allowed to earn a living. Therefore, a covenant must be drafted narrowly to protect the legitimate interest of the employer while allowing the employee to make a living.
- **Has the employee been properly compensated for the promise not to compete?** The employer must give the employee consideration to which he or she was not already entitled. In some states, courts have ruled that, due to the at-will nature of employment, the fact that the employer allows the employment to continue is sufficient consideration. However, continued employment does not constitute sufficient consideration in Pennsylvania. An employer must offer money or eligibility for stock options or some other consideration in order for the covenant to be enforceable.
- **Was the termination of the employee voluntary or involuntary?** The manner in which the services of an employee is terminated will be considered by the court. If the termination is voluntary, the courts will view reasonable covenants more favorably.

It is important for every company to review the agreements it has in place with its employees. In a society where people change jobs frequently, employers must take steps to protect their proprietary information. Confidentiality agreements should be implemented with all employees and properly drafted non-compete agreements should be

executed with appropriate personnel. These types of agreements or covenants can be a valuable business tool and help maintain an employer's competitive advantage.

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