



## You Can Keep a Secret

By Steven Mitchell Sack

Sales employees and independent reps often resign from a job or are lured away to a rival company to compete directly against their former employers. Unfortunately, sales and marketing executives feel powerless when they discover that customer lists, trade secrets and such confidential information as prices, manufacturing processes and identity of key suppliers are being used by ex-employees. In fact, articles in leading business publications have commented that this is creating havoc for companies struggling to maintain their competitive edge.

The problem, however, can be reduced significantly if management takes preventing steps in time. By adhering to the following strategies, you can decrease the chances that such problems will occur and increase the odds of a successful verdict for your company if litigation becomes necessary:

### What a trade secret is

A trade secret may consist of any formula, pattern or compilation of information used in business that gives a company an opportunity to obtain an advantage over competitors that do not know or use it. Although an exact definition is not possible, you can tell that trade secrets are involved when:

- Your company takes precaution to guard the secrecy of the information.
- Your company has expended significant money and effort in developing the information.
- It is difficult to acquire the information in question outside of the company (that is, it isn't generally known to outsiders).
- Employees are put on notice that trade secrets are involved and that they are obligated to act in a confi-

dential manner.

The most frequently disputed issue concerning trade secrets involves customer lists. A "secret" list does not include a list of companies or individuals that can be compiled from a telephone directory or other source that anyone can examine. A list becomes confidential when the names of the customers can be learned only by someone through his employment, for example, when the salesperson secretly copies a list of customers that the company spent considerable time, effort, and money compiling and kept under lock and key.

When salespeople become friendly with customers in the course of their previous employment, they are allowed to call on them for new employers. However, the law generally states that sales representatives are *prohibited* from using their knowledge of customer buying habits, requirements or other special information when soliciting their former employers' accounts. If a salesperson knows that a particular customer will be in short supply of a product, for instance, he should not solicit that account because he may expose himself to a lawsuit. This is because the law imposes a fiduciary duty of good faith and loyalty on all employees, sales and non-sales alike. Thus, it is always a good idea for management to make a point of at least reminding salespeople of their obligation to honor the company's interests when they move onto another job.

### Climate of confidentiality

It is essential to convey to employees their obligation to protect the company's trade secrets. This should be explained to new people when they are hired. Posters can be displayed in prominent areas reminding sales employees and reps of the need for secrecy. Periodic reminders can be included in company journals. Statements about the obligations of your staff should also be published in work rules and policy manuals. In addition,

sales executives should discuss the requirements for secrecy with the sales force on a continuing basis.

### Keep employees informed

Many states have passed laws making it a criminal offense to steal trade secrets. Legislation has been enacted in New Jersey, for example, making it a high misdemeanor to steal company personal property, including written material. Such states as Arkansas, California, Colorado, Maine, Michigan, Minnesota, Nebraska, New Hampshire, New Mexico, Ohio, Oklahoma, Pennsylvania, Tennessee, Texas, and Wisconsin have similar laws. The state of New York has gone even further in addressing this problem by declaring it a felony (third degree grand larceny) for anyone to steal company property consisting of secret scientific material.

In addition, assuming that valuable written material is stolen and transported to another state, the Federal Bureau of Investigation and Justice Department can assist you in apprehending the ex-employee. That's because it is a federal crime to sell or receive stolen property worth more than \$5,000 that has been transported across the state lines.

Sales and marketing managers should review the law in their state and inform new employees and staff of the company's policy to prosecute criminal acts. This can be done both orally and in writing. *I have found this to have a profound impact on reducing problems.*

### Restrictive covenants

Courts will generally enforce an obligation of confidence, binding an employee or ex-employee not to disclose or use trade secrets of his employer, sometimes even without a written contract. However, there are many reasons why it is best to require all new sales employees whose duties involve access to company secrets to sign a written contract containing restrictive covenants. This will put the company in

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a better position to do the following:

- Undermine the defense of employees, who typically claim that the subject matter was *not* a trade secret.
- Prove that the individual was aware of his obligation to secrecy.
- Obtain an immediate legal remedy, known as an injunction, and other relief.

Be sure the restrictive covenant is reasonable. When a company sues an ex-employee to enforce a restrictive covenant, sometimes referred to as a *covenant not to compete*, it doesn't always win. The enforcement of such measures varies on a state-to-state basis and depends on a number of factors. The primary focus of inquiry by a court is usually the reasonableness of the covenant in terms of geographic and time restraints. That is why it is wise to *limit* the covenant where practical. For example, it is best not to include covenants exceeding six months.

*Most importantly, remember that courts also respond favorably to situations where companies have paid the rep or sales employee additional compensation, such as \$1,000, an extra week's vacation, or greater severance pay in consideration for his signing a contract containing a restrictive covenant, or making on-going salary payments during the period that the covenant is in effect.*

#### Exit procedures

Efficient exit procedures can go a long way toward protecting your company. All material containing company secrets should be returned before the employee departs. The terminated individual should also be advised of his/her continuing obligation not to disclose trade secrets and should be requested to sign a document confirming this. When the situation warrants, some companies withhold severance benefits until they have proof that trade secrets have not been conveyed.

Act quickly if problems develop. Confer with corporate counsel as soon as a problem develops. Cases demonstrate that employers can seek an injunction even *before* a former salesperson actually solicits customers. In fact, it is often wise to send your competitor a letter reminding him of the

ex-employee's continuing obligation to secrecy and the fact that a restrictive covenant is in effect.

Strategies such as these can persuade the competitor that it is risky and costly to violate your restrictive covenant, and they also demonstrate your resolve to fight it out in court if necessary.

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