Where to Draw the Line

Use Caution with Non-competes and Confidentiality Agreements

By KEVIN V. MALTBY

Two areas of employment law often go hand in hand — confidentiality agreements and covenants not to compete (also known as confidentiality agreements.) They are found in many employment contracts with employees and may also be used in at-will relationships between employers and employees.

At the beginning stages of employment, an employer should consider whether to bind the new employee to a confidentiality or non-compete agreement. At the termination stage of employment, the employer should review the employee's file to ensure that there are fully executed copies of these agreements.

Confidentiality Agreements

Confidentiality agreements focus on the unauthorized dissemination of confidential information by current and former employees. Generally, companies have a legitimate business interest in protecting important, confidential information from landing in the hands of their competitors or other businesses that could benefit from the information. This could be a customer list, sales data, or technical knowledge. Sometimes, the data the employer seeks to protect is so important and confidential; it could be considered a trade secret, like the recipe for Coca-Cola.

Even without a confidentiality agreement, Massachusetts law prohibits any person or corporation from converting any trade secret for its own use. The definition of a trade secret is broad, and includes any information that constitutes "secret scientific, technical, merchandising, production, or management information, design, process, procedure, formula, invention, or improvement." If a company is found to have misappropriated a trade secret, a court may consider the company's conduct unfair and deceptive, and award punitive damages.

The difficulty for the aggrieved party will be in showing that the misappropriated information was a trade secret. They will have to prove, among other things, the extent to which they attempted to keep the information safe. In considering the Coca-Cola recipe, it is widely known that the formula is kept in a vault and safeguarded from dissemination.

While Massachusetts law affords some comfort to employers regarding confidential information absent a confidentiality agreement, it is strongly advisable that employers create confidentiality agreements for their employees. These give employers the ability to define the breadth and scope of information they seek to keep confidential. A confidentiality agreement is a wider 'net' then the information protected under Massachusetts law and permits employers to protect information that does not fall under the trade-secret definition.

Of course, there are certain exceptions relating to information that employers seek to keep confidential. Information that has already become public knowledge will not be considered confidential under any agreement. The confidentiality agreement not only broadens the scope of information, but also puts the employee immediately on notice regarding their employer's attempt to keep information secret.

If an employer has information that may not be considered a trade secret, but is critical to the business and is not publicly known, the employer should have its employees sign a confidentiality agreement. In addition, the employer should periodically remind its employees to keep the information confidential, and take steps to limit this information to key employees who need to know. This will provide some protections and, more importantly, an avenue of recourse against an employee in the event the information is used or disclosed.

Covenant Not to Compete

Typically, a non-disclosure or confidentiality agreement will be included in an employment contract or covenant-not-to compete agreement. A non-competition agreement is a contract between an employer and former employee that limits the former employee from competing against the employer. The three major components of a non-competition agreement are time, distance, and subject matter:

- Time relates to the months or years a former employee must refrain from competing against his or her former employer;
- Distance relates to the geography in which a former employee may not compete; and
- Subject matter relates to the type of work and specific competitors.

Courts have typically focused on time and distance when considering the validity of a covenant-not-to-compete agreement. In one instance, a court prevented a former employee who moved cross-country from engaging in the same business as his former employer because both businesses were national. Therefore, the court concluded that the former employee would be vying for the exact same business as his former employer. As a result, the court upheld the non-competition agreement.

Conversely, there are instances where courts are not inclined to uphold non-competition agreements because they are egregious in time and scope. For example, a court may not be inclined to uphold a non-competition agreement that prohibits an employee from working in a specific field for 10 years or from moving to a completely different region of the country and working in the same field. A court will also look to the type of business and determine whether it is national, regional, or local. In short, every non-competition agreement must be examined on a case-by-case basis.

Massachusetts law also prevents certain professionals such as doctors and lawyers from engaging in non-compete agreements.

In the absence of a non-competition agreement, a former employee is free to compete against his or her former employer. Therefore, it is advisable to draft and negotiate a covenant-not-to-compete agreement with key employees. While the agreement may be tested after the employee resigns, restricting the employee's competitive activities during the term of employment is always acceptable. It is also critically important to consult with a legal professional to assist in drafting a covenant not to com-

pete; a generic covenant is more likely to be unenforceable because it may fail to consider the specific circumstances of the employee and employer. Each agreement should be tailored to the specific employee.

While employment agreements that include a covenant not to compete and a non-disclosure agreement benefit the current employer, a potential employer may be exposed to legal action when hiring a former employee of a competitor who is bound by a confidentiality agreement or covenant-not-to-compete agreement. The new employer may face an injunction if the former employer believes the new employer is benefiting from the confidential information.

Both non-competition agreements and confidentiality agreements demonstrate an employer's desire to retain strong employees and keep secret information that is vital to the business. The cost of losing a key employee to a competitor or the cost of the dissemination of a client list may be devastating to a company. While cliché, the saying "an ounce of prevention is worth a pound of cure" rings true in this context. Companies should take preventative steps to ensure that their employment agreements are properly drafted and that the provisions relating to confidentiality and non-competition are reviewed by counsel.❖

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