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Building a Better Mousetrap –
Protecting Company Assets

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Introduction

Companies throughout the world rely on confidential, commercially-valuable information as part of their business, which increasingly are becoming some of their most valuable intangible assets. To protect this confidential and proprietary business information, employers often utilize trade secret laws and restrictive covenants. This article analyzes the various means by which a company can (and cannot) protect trade secret or other confidential information. Part 1” focuses on the protection of trade secrets and other confidential information in the United States, and reviews a growing trend in litigation involving “anti-poaching” agreements. “Part 2” outlines how those issues are addressed abroad; in the Netherlands, the United Kingdom, Germany, Belgium, France and Italy.

I. Protection of Employer’s Confidential Information in the United States. ¹

A. Trade Secrets.

1. Defining a Protectable Trade Secret.

Trade secret laws generally protect secret, valuable business information from theft and misuse. Although it has been said that an “exact definition of a trade secret is not

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possible,"² protectable trade secrets are generally comprised of confidential, commercially valuable information.³ According to the Restatement,

A trade secret may consist of a 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. It may be a formula for a chemical compound, a process for a machine or other device, or a list of customers.⁴

The question of whether information will qualify as a protectable “trade secret” under state or federal law is typically a question of fact for a judge or jury.⁵ The trier of fact must consider several factors in assessing whether the information is a protectable trade secret, including:

- the extent to which the information is known outside the company;
- the extent to which it is known by employees and others involved in the company;
- the extent of measures taken by the company to guard the secrecy of the information;
- the value of the information to the company and to its competitors;
- the amount of effort or money expended by the company in developing the information; and
- the ease or difficulty from which the information could be properly acquired or duplicated by others.⁶

² Restatement (First) of Torts, § 757, comment (b) (1939).
³ Uniform Trade Secrets Act § 1(4).
⁴ Id.
⁵ 4-15 Roger M. Milgrim, Milgrim on Trade Secrets § 15.01.
⁶ Restatement (First) of Torts, § 757, comment (b) (1939).
Unlike other protectable information (copyrights, trademarks, patents), there is no set duration for the protection of trade secrets. As such, trade secret protection may extend indefinitely, lasting as long as the subject material remains commercially valuable and is kept confidential.\(^7\) On the other hand, the trade secret status of information may be lost immediately if the information is disclosed to outsiders or competitors (accidentally or intentionally).\(^8\) However, the necessary element of secrecy is not lost “if the holder of the trade secret reveals the trade secret to another ‘in confidence, and under an implied obligation not to use or disclose it.’”\(^9\) Disclosure of trade secrets for certain, limited reasons do not waive trade secret protections, so long as the trade secret owner takes reasonable measures to maintain its secrecy before and during disclosure (such as requiring non-disclosure or confidentiality agreements from recipients of confidential information).

2. Legal Landscape for Trade Secret Protection in United States.

a. State Law

In the United States, trade secrets are primarily protected by individual state laws. If a trade secret is misappropriated, the individual or corporation who owns the trade secret may seek injunctive relief and civil damages under a common law tort action for misappropriation, or through a specific state statute. Although these laws vary slightly from state-to-state, a total of 47 states (plus the District of Columbia) have adopted

\(^7\) *United States v. Dubilier Condenser Corp.*, 289 U.S. 178, 186 (1933) (noting that, rather than seek patent protection, an inventor “may keep his invention secret and reap its fruits indefinitely”).


versions of the Uniform Trade Secrets Act (the “UTSA”), which codifies the basic principles of common law trade secret protection.¹⁰

The state laws provide definitions for key terms such as “trade secret,” “misappropriation,” and “improper means,”¹¹ and outline the various forms of relief (monetary and injunctive) which may be available in a civil action for misappropriation of a trade secret. Some states have even gone further, and recognize the theft of trade secrets as a crime.¹²

b. Federal Law

While state laws provide the vast majority of available protection for trade secrets, trade secrets also receive some help from federal laws. The Trade Secrets Act (enacted in 1948) is of limited applicability, as it prohibits employees of the federal government and government contractors from making unauthorized disclosure of confidential government information, including trade secrets.¹³ The Economic Espionage Act of 1996 (the “EEA”) goes further, and, as relevant here, defines criminal offenses for: (1) theft of trade secrets for the benefit of a foreign entity¹⁴; and (2) theft of a trade secret to confer an economic benefit to another party.¹⁵

¹⁰ Only Massachusetts, New York, and North Carolina have not enacted the UTSA, although they do offer trade secret protection through common law and other statutes.
¹¹ Uniform Trade Secrets Act § 1.
¹² See, e.g., CAL. PENAL CODE § 499c (providing that anyone who acquires, uses, or discloses trade secrets without authorization shall be punished by imprisonment of up to one year in a county jail, by a fine of up to $5,000, or by both penalties).
To constitute a violation of the “theft of trade secrets” prohibition, the prosecution must show: (1) the intentional and/or knowing theft, appropriation, alteration, or duplication of trade secret; (2) the trade secret is related to a product or service used or intended for use in interstate or foreign commerce; (3) intent to convert the trade secret; and (4) intent or knowledge that such action will injure the owner.\(^\text{16}\) In this context, establishing the necessary intent to injure the trade secret owner “does not require the government to prove malice or evil intent, but merely that the actor knew or was aware to a practical certainty that his conduct would cause some disadvantages to the rightful owner.”\(^\text{17}\)

Unfortunately, the EEA does not provide a private, civil right of action to victims of trade secret theft. However, federal penalties for theft of trade secrets in violation of the EEA are substantial. Theft of trade secrets for commercial advantage is punishable by a fine of up to $250,000 for individuals, as well as imprisonment of up to 10 years, and organizations can be fined up to $5 million.\(^\text{18}\) The EEA also authorizes the forfeiture of “any property used, or intended to be used … to commit or facilitate” an EEA violation, as well as “any property constituting, or derived from, any proceeds obtained directly or indirectly as a result of” an EEA offense.\(^\text{19}\) Offenders may be required to pay restitution to victims of their trade secret theft.\(^\text{20}\)

Finally, federal district courts are required to enter protective orders or take other measures “as may be necessary and appropriate to preserve the confidentiality of trade

\(^{16}\) 18 U.S.C. § 1832.
\(^{19}\) 18 U.S.C. §§ 1834; 2323.
\(^{20}\) Id.
secrets, consistent with the requirements of the Federal Rules of Criminal and Civil Procedure, the Federal Rules of Evidence, and all other applicable laws." The EEA also allows the Attorney General to bring a civil action to obtain “appropriate injunctive relief” again any violation of the EEA provisions regarding the protection of trade secrets.


Enforcement of trade secret laws is generally the responsibility of the trade secret owner, who can file a civil suit in state court against the individual or organization who has misappropriated a trade secret. Generally, the trade secret owner can obtain compensatory and punitive damages, and obtain injunctive relief to prevent the use or disclosure of said trade secret.

On the federal side, the Economic Espionage Unit (located within the FBI’s Counterintelligence Division) has the primary responsibility for investigating offenses under the EEA. The Economic Espionage Unit works with private sector partners to investigate and prosecute trade secret theft. According to the FBI, this unit’s caseload has increased every year since its formation, and during the 2009-2013 time period

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alone, the number of trade secret theft cases overseen by the unit increased by more than 60%.\textsuperscript{24}

B. Restrictive Covenants

Employment contracts, policy manuals, and confidentiality agreements are often (with increasing frequency) drafted by employers to contain post-employment “restrictive covenants”—provisions which are designed to limit an employee’s ability to compete with the employer after the employment relationship ends. These covenants are helpful to employers to protect their investment in employees and safeguard trade secrets and confidential information. However, because they (by their very nature) inhibit competition in the employment marketplace, they are often disfavored by the courts. This section identifies the common types of restrictive covenants used by employers, and validity and enforceability issues regarding such provisions.

1. Common Types of Restrictive Covenants.

Restrictive covenants most often appear in the employment context and typically attempt to control an employee’s actions post-employment. Generally, there are three types of restrictive covenants that may apply to an employment relationship: (a) a covenant not to compete with the employer post-departure; (b) a covenant not to solicit or deal with the employer’s customers or employees; and (c) a covenant not to disclose an employer’s confidential or trade secret information post-departure.

2. **Validity of Restrictive Covenants.**

In the United States, nearly all laws governing the enforceability of restrictive covenants are state-based. These laws vary, widely, from state-to-state.\(^{25}\) Accordingly, a court’s choice of law will often be decisive.\(^{26}\)

To understand the varying schools of thought on the enforceability of post-employment restrictive covenants in the United States, it is most efficient to look at examples of state laws from three divergent states: Delaware, California, and Virginia. Delaware represents the majority view on the enforcement of covenants not to compete in the United States. That is, in Delaware and most states, court’s will closely scrutinize and narrowly construe a non-competition agreement, but will generally enforce them if it is part of a valid agreement that is supported by consideration, is reasonable in time and scope, and serve to protect the employer’s legitimate economic interests.\(^{27}\) These “economic interests” typically include the employer’s confidential information and goodwill.\(^{28}\) Delaware courts have also adopted a “reasonable alteration” approach, meaning that if a non-competition agreement is found to be overbroad and unenforceable as written, the court may enforce the non-competition agreement in part,

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\(^{26}\) *E.g.*, *Curtis 1000, Inc. v. Suess*, 24 F.3d 941, 947-948 (7th Cir. 1994) (affirming denial of preliminary injunction; refusing to honor covenant’s selection of governing state law where chosen state had minimal connection to the parties’ relationship).

\(^{27}\) *Faw, Casson & Co. v. Cranston*, 275 A.2d 463, 466-467 (Del. Ch. 1977).

to the extent it finds it reasonable to do so, rather than finding it completely unenforceable. 29

California has taken a very different approach to non-compete agreements. Unlike the majority of other states, California courts disfavor covenants that restrain competition and generally refuse to enforce them. 30 The rationale for this prohibition is that “[t]he interests of the employee in his own mobility and betterment are deemed paramount to the competitive business interests of the employers.” 31 However, there are limited exceptions to the prohibition where non-competition agreements are connected to the sale of a business, or dissociation of a partner from a partnership. 32 Some California courts have also acknowledged an exception for agreements that are necessary to protect the employer’s trade secrets. 33 Further, unlike Delaware law, California courts will typically refrain from re-writing non-competition agreements to make them enforceable. 34

Virginia law lies somewhere in the middle. More specifically, Virginia courts consider restrictive covenants to be restraints on trade that are to be carefully examined and

30 See Cal. Bus. & Prof. Code § 16600 (“every contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void.”)
strictly construed. The inclusion of these provisions in employment contracts is disfavored, and they are generally construed in favor of the employee—not the employer. Nevertheless, Virginia courts will typically enforce a non-competition agreement if the employer shows that the restraint (including time and geographic restrictions) is no greater than necessary to protect some legitimate business interest; is not unduly harsh and oppressive in curtailing the employee’s legitimate efforts to earn a livelihood; and is reasonable from the standpoint of a sound public policy. Legitimate business interests, in this context, include trade secrets, customer contacts, knowledge of methods of operation, and other confidential information.

Due to the substantial differences in enforcement on a state-by-state basis, it is critical for employers to understand what they can and can’t do by way of restrictive covenants (specific to the locations where they operate). Further, these variations in state laws mean that, when parties are considering whether to sue, choice of law will be a powerful factor in analyzing the risks and benefits of litigation, and the choice of forum may prove to be critical in the success or failure of the action.

3. Enforceability of Restrictive Covenants and Remedies.

Just as state laws differ on the validity of restrictive covenants, so too do they differ on the extent of remedies available for breach of those covenants. These remedies vary

38 Id. at 175.
from traditional injunctions and damages to interesting application of liquidated
damages, disgorgement of monies, and attorneys’ fees. Not only are these remedies
available to employers, but certain employees may also assert claims for damages in
connection with overreaching restrictive covenants.40

Injunctive relief is one of the most-utilized remedies in employment restrictive
covenants.41 Injunctive relief, in this context, fulfills the premise of the restrictive
covenant, because it is used to restrict the employee’s ability to compete, solicit, etc.42
Employers should also note that some states are stricter than others in considering
injunctive relief. Colorado, for example, requires that injunctions be narrowly drawn,
and may only operate based on the terms of the underlying restrictive covenant (i.e., if
the agreement has a 1-year restriction, the injunctive relief will have the same time
limit).43 North Carolina, by contrast, allows broader injunctive relief that may include
tolling for periods of breach or pending litigation.44

In addition to injunctive relief, employers can typically also seek damages for breaches
of restrictive covenants. While enjoining the offending behavior is the first step, an
employer may also suffer damages by way of lost customers, lost profits, loss of
goodwill, and training expenses (among other things). Specific monetary damages can
prove difficult, if not impossible, to prove in this context, but they are nevertheless

40 See Osborn v. Bell Helicopter Textron, Inc., 828 F. Supp. 446, 449 (N.D. Tex. 1993); Application
41 See DBA Enters., Inc. v. Findlay, 923 P.2d 298, 302 (Colo. Appl. 1996) (noting that injunctions are the
preferred remedy for breach of non-compete).
42 Id.
recoverable for the breach of a valid noncompete agreement. Because damages are often uncertain (or difficult to prove) in this context, liquidated damages clauses are often used and are typically enforceable, provided that the number is reasonably related to the harm to be suffered, reflects a tie to compensation or the value the former employee could or would obtain from competing, or be based on suspected or anticipated losses.45

Finally, attorneys' fees may be appropriate in restrictive covenant cases, and can go either way. By way of example, Colorado allows for an award of attorneys' fees and costs to the prevailing party even where the actual damages award is minimal.46 Florida allows its courts the discretion to award fees and costs to prevailing party even where the parties did not specifically authorize such an award in the underlying agreement.47 And in Texas, the courts are allowed to award fees and costs to employees where the employee establishes the employer knew at the time of execution that the noncompete was not reasonable, that the restrictions were greater than necessary to protect legitimate business interests, and the employer attempted to enforce the agreement to a greater extent than necessary.48

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45 See, e.g., Calhoun v. WHA Med. Clinic, P.L.L.C., 632 S.E.2d 563, 567-573 (N.C. Ct. App. 2006) ($1.5 million liquidated damages provision was reasonable estimate of anticipated losses, and thus not void against public policy as a restrain on the ability to perform one's profession); Amex Distrib. Co. v. Mascari, 724 P.2d 596, 599 (Ariz. Ct. Appl. 1986) (liquidated damages clause of “75% of [employee’s] billing of [employer’s customers] during the first year, 60% the second year, and 50% the third year”); Restatement (Second) of Contracts § 356, comment (b) (1981) (liquidated damages provision is reasonable if it “approximates the loss anticipated at the time of the making of the contract, even though it may not approximate the actual loss.”); Checkers Eight Limited Partnership v. Hawkins, 241 F.3d 558, 561-562 (7th Cir. 2001) (liquidated damages clause unenforceable if it constitutes a penalty).


47 FLA. STAT. § 542.335(1)(k) (2012).

48 TEX. BUS. & COM. CODE ANN. § 15.51(c) (West 2011).
C. Litigation Arising From “Anti-Poaching” Agreements

In addition to requiring employees to sign confidentiality agreements, some employers have also attempted to implement “anti-poaching” or non-solicitation agreements as a means to protect an employer’s investment in employees and to shield the disclosure of confidential information between competitors. By way of example, two or more regional competitors might agree to refrain from interviewing or hiring each other’s employees. However, because these agreements implicate antitrust concerns, there is a growing trend in litigation involving these alleged “anti-poaching” agreements.

One of these cases is In Re: High-Tech Employee Antitrust Litigation, currently pending before Judge Koh in the Northern District of California, Case No. 11-CV-02509-LHK. In that case, the plaintiffs alleged that Google, Inc., Apple, Inc., Intel Corp., and Adobe Systems, Inc. illegally agreed not to poach each other’s engineers. This lawsuit was filed in May 2011, and seeks damages for antitrust violations stemming from the companies’ alleged agreements to provide each other notice whenever one made an offer to another company’s employee. The plaintiffs also contend that the defendants agreed to cap pay packages for prospective hires to prevent bidding wars, and to abstain from recruiting one another’s personnel entirely. The parties entered into a tentative agreement to settle the class claims for $324.5 million, but Judge Koh rejected the settlement in August 2014, finding it offered class members proportionally less than deals that were struck by other companies that were initially targeted by the DOJ for antitrust allegations. The defendants are seeking Ninth Circuit review of the decision to reject the settlement, but as of the date these materials were finalized, no decision has been made on that appeal and the case is set to start trial on April 9, 2015.
That lawsuit was followed by multiple other lawsuits asserting substantially similar claims. In September of 2014, a putative class action was filed against DreamWorks Animation SKG, the Walt Disney Co., and other Hollywood companies accusing them of similar antitrust violations stemming from agreements not to poach each other’s employees. The following month, two more class actions were filed against the same groups of defendants, asserting similar claims on behalf of additional groups of employees.

These lawsuits stand are good examples of when an employers’ efforts to protect confidential information went “too far.” Although these alleged anti-poaching agreements (if they did, in fact, exist) likely helped to prevent the disclosure of information between competitors, they are also alleged to have had an anticompetitive effect which resulted in the payment of below-market wages across the industry. Thus, while an "anti-solicitation" agreement between an employer and an employee—barring the employee from soliciting other employees to quit and join a competing venture—may be enforceable (depending on what state you are in), agreements between two different employers to refrain from hiring each other’s employees are much more risky and could violate the antitrust laws.

49 See Nitsch v. DreamWorks Animation SKG, Inc, USDC, NDCA, Case No. 14-CV-04062-LHK.
II. Trade Secrets, Non-Competes and Other Restrictive Covenants in the Netherlands, the United Kingdom, Germany, Belgium, France and Italy.

A. The Netherlands.\(^{51}\)

1. Trade Secrets in General

In the Netherlands, an employer’s confidential and proprietary information will generally be protected through express and implied terms of the employment contract. Even in the absence of an express confidentiality clause, an employee will be subject to an implied duty of confidentiality, based on “good employee(s)hip” (the principle of reasonableness and fairness).\(^{52}\) As a result, as well as during employment as after employment has ended, an employee will be under an obligation not to use or disclose the employer’s confidential information.

2. Restrictive Covenants

a. Non-Compete Clause

The current provisions on non-competition clauses are set forth in the section of the Dutch Civil Code (DCC) on employment agreements.

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\(^{52}\) Article 7:611 of the Dutch Civil Code.
1. Validity

For the validity of a non-compete, section 7:653 (1) and (2) of the Dutch Civil Code (DCC) determines three criteria. The first criterion is that a clause between an employer and an employee, restricting the latter’s rights after termination of the (employment) agreement to work in a certain capacity, is that the employer had agreed such clause in writing. As, by agreeing to a non-competition clause, an employee’s rights to work in a capacity that he may desire after termination of the employment agreement are considerably restricted, the legislator has set stringent requirements for the validity of a non-competition clause. For example, a non-competition clause not agreed in writing is null and void. The requirement that the clause be agreed in writing is interpreted very strictly in case law: non-competition clauses in staff handbooks or non-competition clauses not signed by the employee are very likely to be nullified by the court. Furthermore, if the position of an employee has changed significantly, case law requires that such a non-competition clause be re-agreed.

The second criterion is that a non-compete is only valid if it has been agreed upon with an adult employee.

The third criterion is only applicable in case of a fixed term employment contract. Pursuant to section 7:653(2) DCC, which has some into force on 1 January 2015, in principle, it is prohibited to agree upon a non-compete clause in a fixed term employment contract, unless the employer has substantial business or service interests.

54 Supreme Court 5 January 2007, LJM AZ2224 (AVM Accountants/Spaan).
that justify to do so anyway. When including such clause, the employer must substantiate these interests in writing, either in the employment contract itself or in an appendix to the contract. When at the end of the employment contract the employer relies on the non-compete clause, he must be able to prove that these interests still exist. Failing such written substantiation, the non-compete clause will be void. If the clause is not required because of substantial business or service interests, the court may declare the clause void in its entirety.

2. **Enforceability**

The DCC also contains criteria which are relevant to the enforceability of a non-competition clause: the non-competition clause may not be unfairly detrimental to the employee as compared to the employer’s interest to be protected. Therefore, the interests of the employer and the employee have to be weighed. The court may nullify all or part of the non-competition clause if it is of the opinion that the clause is unfairly detrimental to the employee. In the event of a partial nullification, a restriction on the prohibited activities or a restriction as to the duration or geographic scope of the clause may be considered. The restriction that is deemed reasonable will depend, *inter alia*, on the relevant industry and the position held by the employee, as well as on the duration of the relevant employment agreement.

b. **Business Relationship Clause**

The DCC does not contain specific rules regarding a business relationship clause. Pursuant to case law, a business relationship clause in principle qualifies as a non-
compete clause. As a consequence, the same criteria for validity and enforceability apply.

c. Confidentiality Clause

In practice, it is common for an employer to include a confidentiality clause in the employment contract, that prevents the employee from disclosing any confidential information, data, documents, etc. regarding the company or the group’s business to any third party during the performance of the employment contract and after its termination. The DCC does not contain specific rules regarding a business relationship clause. However, the DCC does contain a clause regarding penalties.

d. Other Restrictive Clauses

Other restrictive clauses, such as a non-poaching clause or an intellectual property clause, are common in The Netherlands. No specific statutory rules apply.

e. Penalty Clause

In general, the aforementioned clauses may contain a penalty clause.\(^5\)\(^5\) It is advisable to add such a clause for the situation of non-compliance with the restrictive covenants. In case of an amicable settlement (a termination agreement by mutual consent), it is advisable to explicitly state that both the restrictive covenant(s) and the penalty clause will remain in force and will not be waived.

\(^5\)\(^5\) Article 7:650 of the Dutch Civil Code
B. The United Kingdom.  

1. Trade Secrets

In the UK, an employer’s confidential and proprietary information will generally be protected through express and implied terms of the employment contract. Even in the absence of an express confidentiality clause, an employee will be subject to an implied duty of confidentiality. As a result, during employment, an employee will be under an obligation not to use or disclose their employer’s confidential information. After employment has ended, this implied term still serves to protect confidential information, but a narrower category of confidential information; essentially information with the same degree of confidentiality as to amount to a trade secret.57

Generally, therefore, rather than merely relying on the implied term, employers will also include express confidentiality clauses. The purpose of these is to specify exactly what information is regarded as confidential and which should be treated as such, which can assist evidentially in demonstrating information is protectable. Case law also suggests that an express clause may widen the categories of confidential information, which can be protected post-employment.58

Additionally, employment contracts will frequently contain other provisions designed to assist protecting confidential/proprietary information. For example, an express

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56 By Bob Mercrate-Butcher (Bob.Mercrate-Burcher@crsblaw.com) of the ALFA London firm Charles Russell Speechlys.

57 Faccenda Chicken Ltd v Fowler [1986] IRLR 69.

obligation on termination requiring delivery up of all information and deletion from any personal computers, etc.

Certain categories of confidential information may be additionally protected in the UK through intellectual property rights and/or in relation, for example, to customer lists, database rights.

Where an employer suspects an employee/former employee of misusing its confidential information/proprietary data frequently, evidence of breaches will be first obtained through use of computer forensics. Once evidence has been obtained, this will usually be followed by lawyers’ letters, seeking full details of disclosure and use made and appropriate undertakings. In the absence of a satisfactory response, this will usually be followed by initiation of legal action, seeking injunctive remedies and/or damages. In certain circumstances, where there is evidence that an employee/former employee has mis-used confidential information and, as a result, obtained an unfair head start it may be possible to obtain a “springboard injunction” which may for example, prohibit the former employee from dealing with customers contacted using a wrongly taken customer list for a particular period.

2. Restrictive Covenants

a. Basic Legal Position

The starting position in the UK is that restrictive covenants are void on the basis of being “in restraint of trade”; i.e. anti-competitive. Restrictive covenants within employment contracts will only be enforced by UK courts where an employer can
demonstrate that a particular covenant is necessary to protect its legitimate business interests (traditionally confidential information, clients, stability of its workforce non-disruption with supplies) and that, in addition, the covenant is drafted to provide no more than the minimum necessary level of protection to those interests.\footnote{Allied Dunbar (Frank Weisinger) Ltd v Weisinger [1988] IRLR 60.} In short the ambit of the covenant, is not too wide and the length of the covenant is not too long. Note there is no obligation to pay an employee during a period over which a restrictive covenant applies and, therefore, within the UK there is generally no provision for payment.

b. Prevalence of Restrictive Covenants

Restrictive covenants will generally be found within contracts for senior executives and also within the contracts of more junior employees within many industries. For example, restrictive covenants will often be found in the contracts of employees within the financial services sector, particularly for employees in broking and other front office, sales and marketing roles. Restrictive covenants will often also be contained within other sectors for those in middle management or involved in direct dealings with clients or where protection of trade secrets and other proprietary information is regarded as crucial.

c. Types of Restrictive Covenants

In the UK it is common to find the following types of covenant.

1. Non-Solicitation Restriction
This should be the easiest type of covenant to justify and, therefore, enforce for employees with direct dealings with clients. It is drafted to restrict a former employee from "soliciting"; i.e. taking steps to bring in the business of, clients with whom they have dealt for a particular period. Covenants will also, on occasions, be drafted to cover prospective clients; i.e. business contacts who have not yet become clients.

2. Non-Deal Restriction

This prohibits “dealing”; i.e., doing any work for clients regardless of whether there was solicitation. This is more difficult to justify than a non-solicitation restriction, but it is not unusual to find non-dealing restrictions which employers will seek to justify on the basis of the difficulty of policing non-solicitation restrictions.

3. Non-Compete Restriction

This seeks to preclude a departing employee from working with a competitor for a particular period. Whilst more difficult to justify, UK courts will enforce a non-compete restriction in appropriate circumstances. Particularly where these restrictions are necessary to protect non-client specific confidential/proprietary information as may be the case for senior executives with particular knowledge of business strategy.

4. Poaching Restrictions

A clause which seeks to preclude the departing employee from playing any part in recruiting former colleagues. It is important that such a clause is not drafted to cover all categories of employee, particularly in the case of large employers. Ideally, therefore, such a clause should be drafted to cover classes of employees who have had particular
levels of client connection/access to trade secrets/proprietary information. Generally however, provided necessary and appropriately drafted, will be enforced by UK courts.

5. Other

In addition to the above, there may also be covenants which seek to preclude a former employee from taking steps which might disrupt the former employer’s relationship with its suppliers. Again this type of restriction is potentially enforceable.

Covenants may also be drafted, particularly in the financial services sector, so that rather than prohibiting an employee from taking steps, they provide that certain deferred compensation/stock/options will be forfeited. The same principles apply regarding enforceability.

d. Garden Leave

It is common in the UK to also seek to protect an employer’s business interests through “garden leave.” This is the use of a contractual right to require an employee to stay out of office and have no contact with clients or colleagues during their contractual notice period. It is common for an employer to exercise this right where a senior employee resigns to join a competitor. Often, restrictive covenants are also drafted so that any period of garden leave served reduces the period of the covenants.

e. Enforcement of Restrictive Covenants

It is fairly standard where a senior employee is leaving to join a competitor, or is suspected of doing so, for the employee to be reminded, in writing, of the existence of
the covenants on termination. Additionally, employment contracts frequently contain a contractual obligation on an employee to make a potential new employer aware of the existence of the restrictive covenants with a view to supporting an "inducement" action against a prospective employer. An inducement action is on the basis that the new employer has induced or encouraged/facilitated a breach of contract by the individual subject to the restrictive covenants.

In the event of finding evidence that suggests breach by a former employee, the first stage is ordinarily, lawyers “warning shot” letters to the former employee and the new employer highlighting what seem to be breaches and seeking appropriate undertakings that covenants will be complied with. In the absence of such undertakings, the next step would be to apply to the UK High Court seeking injunctive relief; i.e., a Court Order requiring employee/potential new employer to comply, and/or damages. In order to obtain an injunction it would be necessary to produce substantive evidence of the breach, in support of the covenants being appropriate and necessary to protect the employer’s legitimate business interests and of the need for an injunctive remedy to prevent a real risk of damage.
C. Germany\textsuperscript{60}

1. Protection of Trade Secrets

a. General Introduction

There is no explicit statutory provision relating to any non-disclosure obligation of the employee regarding to trade secrets of the employer. However, such an obligation is generally acknowledged. The acknowledged obligation is flanked by statutory provisions\textsuperscript{61} regarding unlawful competition and tort law\. Additionally, there exist some special non-disclosure obligations for specific secret carriers within a company.

Trade secrets are defined as all facts connected to the running of the business which are only known by a specific group of people, which are not in the public domain and which are kept secret based on the expressed or implied will of the employer due to justified economical reasons\textsuperscript{62}.

Trade secrets are protected through Sec. 17 UWG, which is a criminal provision during the employment relationship. Moreover, due to the employee’s duty to secure the interests of hi or her employer there exists a broader obligation of the employee to not disclose any non-disclosure interests of the employer no matter of their kind. This obligation is limited by constitutional means. By weighing the parties’ interests within the employment relationship the employee is entitled to disclose information insofar as

\textsuperscript{60} By Géro Schneider (Schneider@tiefenbacher.de) of the ALFA Germany firm Tiefenbacher.

\textsuperscript{61} Secs. 17 UWG subs. (Act Against Unfair Competition).

\textsuperscript{62} Hoeren, Der Schutz von Betriebs- und Geschäftsgeheimnissen, p. 106 subs.
his or her freedom of speech outweighs the employer’s interest in the secrecy of an company-related topic.

There exists a controversy in the legal practice of whether – and to which extent – an obligation to not disclose trade secrets is applicable after the termination of an employment relationship. The German Federal Labour Court has not finally decided on whether a general obligation not to disclose may be drawn from the general duty to mutual consideration. It seems to be undoubted that “justified” trade secrets are protected after the termination of the employment relationship. However, this is only true insofar the employee is not infringed in his or her constitutional freedom to choose an occupation. Further protection of the employer may only be reached by contractual agreements, i.e., non-disclosure agreement and clause not to compete.

b. Legal Remedies In Case of any Infringement?

As legal remedies in case of an infringement of the obligation not to disclose labour law, civil law and criminal law consequences may be at hand as follows:

The employer may be entitled to a termination of the employment relationship with immediate effect or at least obtaining the contractual/statutory notice period. The employer may claim an obligation to cease by the employee for the future. Furthermore, damages may be claimed, but have to be proved by the employer. Finally, the employee may be sentenced according to Sec. 17 UWG.

c. Recommendation.

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63 Lingemann / von Steinau-Steinrück / Mengel, Employment & Labor Law in Germany, p. 29.
It is very common to introduce a non-disclosure agreement in the employment contract. Such agreement should especially be applicable even after the termination of the employment relationship. The non-disclosure obligation should be flanked by a contractual penalty on case of any infringement. According to German law a contractual penalty of one monthly gross salary for each infringement may be validly agreed.

2. **Restrictive Covenants**

After termination of the employment, a confidentiality clause is enforceable without obligation to pay compensation, whereas a post contractual restrictive covenant will be enforceable only if:

- it does not exceed a period of two years
- it is concluded in writing
- it is necessary to safeguard a justified commercial interest of the employer
- it does not unfairly jeopardize the employee’s future career
- the employer obligates himself to pay compensation for the duration of the restrictive covenant in the amount of at least one-half of all contractual benefits the employee last received.\(^64\)

Other earnings are only deducted if they, together with the compensation, exceed 110% of the employee’s previous remuneration. If the employee must change his residence

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\(^{64}\) Sec. 74 German Commercial Code.
due to the restrictive covenant, the limit is 125%. If one party has provided grounds for terminating the employment relationship for cause the other party may declare, within one month, that it is no longer bound by the restrictive covenant. The same applies in favor of the employee if the employer terminates the employment agreement without justification. The employer may waive the restrictive covenant at any time before the employment agreement expires. However, in this case it must pay the compensation for one more year. Consequently, if it waives the restrictive covenant one year or more before the employment agreement comes to an end, no compensation will need to be paid since it will be set-off against the paid contractual remuneration anyway.

D. Belgium

1. Non-Competition Agreements:

- It is only possible to agree upon a non-compete for employees, who earn more than EUR 40K gross per annum;
- The non-competes should be limited to the region where the worker was active during his employment;
- The maximum duration of a non-compete is 12 months;
- A non-compete can only be enforced in case the employee resigns or the employer terminates the employment agreement for serious cause;

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65 Sec. 74c German Commercial Code.
66 Sec. 75 German Commercial Code.
67 By Bruno Blanpain (Bruno.blanpain@mvvp.be) of the ALFA Belgium firm Marx Van Ranst Vermeersch & Partners.
• The non-compete must provide for a lump sum compensatory payment that is at least equal to 50% of the normal salary and benefits over the period during which the restrictive covenant will be enforced;

• The employer can waive part or whole of the covenant’s application within a period of 15 days post termination by registered mail; after that period the lump sum is due.\textsuperscript{68}

2. Non-solicitation clauses

Non-solicitation clauses are sometimes included in non-competition clauses or stand alone. It is uncertain whether these restrictions can be enforced since the labor market is in principle free. The inclusion of a non-competition clause offers the best possibility of enforcement whereas the employee is compensated and the prohibition is limited in time.

3. IP-IT clauses

Intellectual Property/Information Technology clauses are regularly instated in contracts by which the employee confirms:

• (that he did not have previous knowledge of the subject matter);

• that he will not work for his own or the competition in the subject matter;

• that he transfers all IP and IT rights regarding his work;

\textsuperscript{68} Article 65 of the Statute of July 3\textsuperscript{rd} 1978 respecting contracts of employment.
that respecting new exploitation modes of his creations, he will be compensated with 1% of the profits with a maximum of EUR 500 per annum.

International companies with sensitive know-how are able to conclude an exceptional non-competition agreement for employees that are aware of these trade secrets if these employees earn more than EUR 68K per annum:

- The duration of the non-compete may be extended to 24 months;
- The scope may be wider than Belgium and may include other countries where the company is active;
- The lump sum may be 12 months’ salary and benefits.\(^{69}\)

E. Italy\(^ {70}\)

1. Restrictive Covenants

   a. Non-Competition Covenants

   Under Italian law non-competition covenants are allowed both during and after the termination of the employment contract.

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\(^{69}\) Collective Labour Agreement #1bis extending the conditions under which a restrictive covenant may be agreed as concluded in the National Labour Council on December 21\(^{st}\) 1978;

\(^{70}\) By Davide Boffi (Dboffi@unlaw.it) of Ughi e Nunziante – Studio Legale.
i. During the Employment Contract

During the employment contract, the non-competition restriction automatically derives from the general obligations of employees towards their employers provided for by Art. 2105 of the Italian Civil Code\(^1\).

ii. After the Termination of the Employment Contract

Pursuant to Art. 2125 of the Italian Civil Code\(^2\), after the termination of the employment contract, the non-competition covenant is allowed only if the following legal requirements are met:

a) written form;

b) specification of the forbidden activity;

c) specification of the duration (5 years for executives and 3 years for other categories of employees);

d) specification of the limits of territory;

e) compensation for the employee.

The amount of the compensation is not provided for by the law. However, such amount must be fair in relation to the activity, the territory, and the duration, with the

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\(^1\) Art. 2105 of the Italian Civil Code (Royal Decree 16\(^{th}\) March 1942, n. 262) provides that «The employee cannot engage in business, either on his own account or on that of third persons, in competition with his employer, nor disclose information regarding the organization and methods of production of the company, nor use it in such a manner as may be prejudicial to the employer».

\(^2\) Art. 2125 of the Italian Civil Code (Royal Decree 16\(^{th}\) March 1942, n. 262) provides that «Agreements according to which the employee’s working activities are limited for the time after the termination of the contract are null and void unless they are in writing, a compensation for the employee is provided for, and the obligation is subject to a pre-established limit of activity, time and place. The length of the obligation cannot be longer than 5 years, in the case of executives, and 3 years in other cases. If a longer period is agreed, it will be reduced to the above mentioned measure».
consequence of otherwise rendering the entire non-competition covenant null and void. On this matter, case law has set out that the compensation cannot be considered fair if it is manifestly unfair and disproportionate to the sacrifice requested from the employee and to his/her reduced possibilities of income, independently from the benefit that could derive to the employer from such limitation.

iii. Enforcement

In case of violation of a post-employment non-competition agreement, the employer can request a preliminary injunction preventing the employee from working for the competitor for the duration of the non-competition agreement. If the employee does not comply with the injunction, these actions constitute a criminal offence. In any case, it is also possible to insert a specific clause in the non-competition agreement providing that, in case of complete or partial failure to comply with the covenant, the employee has to repay the money received from the employer and will also be liable to pay a penalty. In this regard, according to Art. 1382, second paragraph, of the Italian Civil Code the penalty is due regardless of proof of damage this means that if a clause providing for a penalty is inserted into the non-competition covenant, the employer is automatically entitled to the amount referred to in the penalty clause. If, however, the employer wishes to claim damages in addition to those provided for in the contract, it needs to raise a court action and prove the additional damages.

73 Art. 1382, 2nd par., of the Italian Civil Code (Royal Decree 16th March 1942, n. 262) provides that «The penalty is due regardless of proof of damage». 
b. Non-Solicitation Covenants

During the employment relationship the non-solicitation restriction automatically results from the general obligations of the employees towards the employer as provided for by Art. 2105 of the Italian Civil Code.

It is also possible to provide this obligation after the termination of employment, by a specific clause inserted in the contract or by a specific agreement, although there are no legal provisions specifically regarding non-solicitation. No compensation is due for non-solicitation restriction.

i. Trade Secrets

a) Definition

During the employment contract the disclosure of confidential information constitutes a violation of the duty of loyalty provided for the Italian Civil Code (Art. 2105). This article provides that the employee can neither divulge information regarding the organization and methods of production of the company, nor use it in such a manner as may prejudicial to the employer.

Furthermore, the disclosure of trade secrets also represents a criminal offence. Indeed, under Art. 622 of the Italian Criminal Code⁷⁴ states that anyone who knows a secret for reasons related to his position, office or profession, and discloses it, without just cause,

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⁷⁴ Art. 622, 1st par., of the Italian Criminal Code (Royal Decree 19 October 1930, no. 1398) provides that: “Any person who, due to his status or office, or his profession or art, becomes aware of a secret and reveals it without just cause, or uses it on his own behalf or to the benefit of someone else, shall be punished, if harm can be caused by such act, with imprisonment of up to 1 year, or with a fine from 30 to 516 Euro.”
or uses it for his own profit or for the profit of a third party, is punishable with imprisonment of up to 1 year or with a fine of up to 516 Euro, if the fact has caused damage. In addition, Art. 623 of the Italian Criminal Code states that “anyone who knows, for reasons related to his position, office or profession, news to be kept confidential regarding discoveries or scientific inventions and discloses them for his own profit or for the profit of a third party, is punishable with imprisonment of up to 2 years.”

b) Enforcement

During the employment contract the violation of the obligation to confidentiality can entail the adoption by the employer of disciplinary sanctions resulting even in dismissal for just cause, as a violation of the duty of loyalty.

After the termination of the contract, the use of confidential information by a company in competition could constitute a case of unfair competition. Therefore, the employer can bring an action asking the Court to prohibit the continuation of the unfair competition and make the appropriate provisions in order that its effects be counteracted, with a preliminary injunction. (Art. 2599 of the Italian Civil Code). Furthermore, the employer can also claim for damages, if acts of unfair competition are performed with malice or negligence (Art. 2600 of the Italian Civil Code).
F. France

1. Protection of Trade Secrets by the Law.

a. Infringements Protecting the Manufacturing Secret.

Under French law, there is no general infringement provided for by the Criminal Code that would punish the disclosure of any trade secrets. However, the French labour Code provides for a specific infringement in order to protect the disclosure of any manufacturing secret (which does not cover any trade secret). If an employee or a company representative discloses or attempt to disclose a manufacturing secret, he or she could be exposed to criminal prosecutions (2 years imprisonment and a fine of €30,000). The Company could also claim for damages because of such disclosure.

b. Company’s Intellectual Property Rights through Inventions of an Employee.

Any invention made by an employee in the performance of his functions implying an inventive mission, or in the course of studies and researches devoted to him by the employer, belongs to the company. A company can ask for the property of any other invention made by one of its employees during the performance of his employment contract, whatever his functions are, if such invention was made by the employee:

- In the scope of the activity of the Company; or

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75 By Kim Campion (Kim.Campione@crsblaw.com) of Charles Russell Speechlys.

76 Article L.1227-1 of the Labour Code: “the disclosure or the attempt to disclose any trade secrets is punished by two years imprisonment and a fine of €30,000. The Court is also allowed to decide, as an additional sentence, deprivation of civil, civic or family rights for a period that cannot exceed 5 years.”
Thanks to the knowledge, means or data the Company has provided him with.

In return, the employee is paid a “fair price” decided upon an agreement77.

2. Validity and enforcement strategies for restrictive covenants

In France, several clauses are inserted in the employment contracts in order to ensure the non-disclosure of any trade secret in the course of the employment contract as much as at the termination of the employment contract.

a. Confidentiality Clause

In practice, the employment contracts provide for a confidentiality clause that prevents the employee to disclose any confidential information, data, document, etc. regarding the company or the group’s business to any third party during the performance of the employment and pursuant to its termination. Such clause is particularly useful at the termination of the employment contract. Indeed, in the course of the employment contract, the employee is subject to a loyalty obligation that forbids him any way to breach any confidentiality obligation. In case of such breach, the employee could be dismissed for gross misconduct. Pursuant to the termination of the employment

77 Article L.611-7-2° of the Intellectual property Code: “when an invention is made by an employee in the course of the performance of his functions, or in the field of the company’s activities, or thanks to the proper knowledge or the use of technics or tools belonging to the company, or thanks to data furnished by it, the employer is allowed, in the conditions and the deadline provided for by a decree, to claim for the property or the enjoyment all or part of the rights related to the patent protecting the invention of the employee.

The employee has to be provided with a fair price which, except in case of an agreement between the parties, is fixed by the conciliation commission implemented in accordance with the article L.615-21 or by the Civil Tribunal : the latter will take into consideration any elements that may be given by the employer and the employee, in order to calculate the fair price taking into account the initial contributions of the employee and the employer and the industrial and business utility of the invention”. 
contract, if an employee is subject to a confidentiality clause, he will be forbidden to disclose any information, document or data regarding the business trade to any third party. In case of disclosure, he could be ordered to pay damages to his former employer to repair any suffered harm.

b. Non Solicitation Clause

In France, employment contracts provide for non-solicitation clauses. Such clauses forbid the employer from hiring any employee of the Company during a limited period. In practice, such clauses do not trigger many disputes. However, from a legal point of view, it cannot be totally excluded that an Employment Court could consider these non-solicitation agreements as non-compete clauses between the company and its current employees. Indeed such clauses limit the freedom of work of the current employees of the Company in case of termination of their employment contract.

c. Non-Compete Clause

Under French law, non-compete clauses can be enforced under the following conditions. The non-compete obligation has to:

- be justified by the protection of the legitimate interests of the company;
- take into account the specificity of the functions of the concerned employee;
- be limited in time and space; and
- provide for a non-competition indemnity.
In any case, the non-compete clause has to comply with the provisions of the applicable Collective Bargaining Agreement\(^7\) (CBA). If the non-competition fails in meeting one of the above conditions, the non-competition clause would be null and void. The employee would be allowed to compete with the company unless such competition is disloyal.

If an employee complies with a non-compete clause that does not comply with the above conditions, the Company would be ordered to pay damages to the employee.

At the termination of the employment contract, the Company is allowed to release the employee from the non-compete obligation, if such withdrawal right is provided for by the employment contract or the applicable collective bargaining agreement.

\(^7\) Under French law, an industry-wide CBA applicable to a company is determined in consideration of its main activity (e.g. main turnover or highest number of employees). As soon as the main activity of a company is covered by the scope of application of an extended industry-wide CBA, the latter automatically, compulsorily and immediately applies to the said company, without any delay. In addition, the application of a CBA is mandatory when the employer is a member of an employer’s organisation which is a party to such an agreement.