

# Covenants Not to Compete, Trade Secrets, Unfair Competition and Copyright

## I: INTRODUCTION

The law of non-competes and trade secrets often has a critical impact on architectural and engineering employers who lose or are about to lose a key employee, on employees who are looking to join a competing firm, and for the firm looking to hire from a competitor.

From the employer's perspective, the employer introduces the employee to his customers and pays the employee to develop new customers and maintain relationships with existing customers. The employee may have access to confidential financial and business information that gives the employer a competitive advantage over its competitors. When the employer learns of the resignation or possible resignation of the employee, the question is whether or to what extent the employer can prevent the employee from competing with him, from approaching his client base or from using his confidential financial or business information.

From the employee's perspective, the employee has gained experience, but may find it attractive to start his own company in a similar line of business or join a competitor. For the firm looking to hire from a competitor, the lateral employee may have valuable customer relationships and experience. For the employee and for the hiring firm, the questions are the flip side of those facing the employer: to what extent can the employee compete with his former employer or approach his former employer's customers or use information obtained during the course of his employment?

The answers to these questions—on both sides—depend in large part on events that occurred long before the resignation. Did the employer have the employee sign some form of non-compete agreement? Did the employer treat customer information, client information and other valuable business information as confidential? Did the employer take reasonable steps to protect the confidentiality of the information?

This presentation will set forth the basics on non-compete agreements and trade secret law and provide some practical advice for employers, employees and hiring firms.

## ACKNOWLEDGMENT

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### II: TYPES OF COVENANTS NOT TO COMPETE

Although usually referred to as “non-competes,” there are several different types of agreements that fall within the general category of post-employment restrictive covenants:

#### Non-Competition Agreements

A true non-compete prohibits an employee from competing in the same business or industry with his former employer or prohibits an employee from servicing the same clients within that industry that he serviced for his former employer. The restriction is usually for a specified period of time within a limited geographic area. For example, an architect or engineer might be prohibited from servicing the employer’s clients he serviced or whose names became known to him while employed by his initial firm for one year within a given geographic market.

#### Non-Solicitation Agreements

Another common type of post-employment restrictive covenant is the non-solicitation covenant. While the terms can vary, so-called “non-solicits” prohibit an employee from soliciting customers that he serviced with his prior employer or whose names he learned while employed by the prior employer for a specified period of time. One interesting feature of non-solicits—and a way they differ from non-competes—is that they prohibit the employee from initiating certain kinds of contact with the former employer’s customers, but they do not prohibit the employee from responding to communications initiated by the customer, and they do not prohibit the employee from servicing the customer if the customer initiates the contact.

#### Confidentiality Clauses

A third common type of post-employment restrictive covenant is the confidentiality clause or agreement.

A confidentiality clause generally requires the employee to keep confidential and not to use after his employment terminates any information he learned during his employment. Confidentiality clauses are usually broad and cover customer names, addresses and business information as well as the business information of the employer.

Confidentiality clauses generally apply both to information that the employee developed on the job and to information provided to the employee in the course of his employment.

### III: ENFORCEABILITY OF POST-EMPLOYMENT RESTRICTIVE COVENANTS

Among employers, employees and hiring firms, there is often much uncertainty about the enforceability of the various forms of non-competes. And for good reason. Non-competes are one of the few types of contractual provisions that receive close scrutiny from the courts when a party seeks to enforce them.

#### The Protectable Interest Requirement

Non-competes receive close scrutiny by the courts because the law generally protects free and fair competition.

Generally, courts will only enforce the various kinds of non-competes in order to protect legitimate employer interests—not merely to prevent competition as such.

In addition, enforcement of non-competition agreements is primarily a matter of state law. State law can and does vary considerably in whether and to what extent the state will enforce non-competition agreements.

### Protection of Certain Types of Client Relationships

The primary requirement for enforcing a non-competition agreement is that the agreement is necessary to protect a legitimate business interest of the employer. Generally, courts have recognized two main interests that are protectable through non-competition agreements. The first is certain customer relationships. Two examples may help illustrate the kinds of customer relationships that courts will or will not protect.

Under Illinois law, courts will protect the employer's interest in "near permanent customer relationships." Under New York law, courts generally will not enforce a non-solicitation covenant as to clients with whom the employee had a relationship before he joined the employer. Another test that courts apply is whether the customers were readily identifiable or whether the employer had to make an investment to identify and develop the customer.

### Protection of Trade Secrets and Other Confidential Information

The second type of interest that courts have recognized is the employer's interest in protecting its trade secrets and other confidential information. There are two principal considerations in protecting the employer's trade secrets or other confidential information. The first is whether the information is sufficiently "secret" to have economic value. The second consideration is whether the employer has exercised reasonable means under the circumstances to maintain the secrecy of the information.

### Reasonableness of the Restrictions

Even if the court determines that the employer has a legitimate interest to protect, courts typically scrutinize non-competes to determine that the restriction is reasonable in its geographic and temporal scope. There is a risk that a court will not enforce a non-compete if the court determines that the agreement purports to prohibit competition in a wider geographic area or for a longer period than the court deems necessary to protect the employer's legitimate business interests. While some courts will "blue-pencil" post-employment restrictive covenants—and only enforce them to the extent necessary to enforce the employer's legitimate business interests—some courts will refuse any enforcement of restrictive covenants that are deemed overly broad.

## **IV: ENFORCEMENT OF POST-EMPLOYMENT RESTRICTIVE COVENANTS**

Litigation to enforce non-competes is usually an emergency matter. If the employer learns that an employee subject to some form of non-compete has resigned or is about to resign, the employer typically needs to act quickly to attempt to obtain relief from a court to enforce its agreement and protect its interests. A lawyer can advise the employer as to the enforceability of its restrictive covenants and how to enforce such agreements in the courts.

Employers typically seek to enforce non-competes through the filing of a motion for a temporary restraining order (TRO). Courts will usually hear such motions on an expedited basis—usually the same day or within a matter of days. While prompt action is critical, it is also critical to have a legally sufficient case to obtain a TRO. A lawyer can advise, particularly on the key issue of whether the mere threat of conduct in violation of the non-compete is sufficient and, if not, what evidence should be sufficient to obtain a TRO.

From the perspective of the employee or hiring firm, it is important to obtain advice in advance as to whether or to what extent a court is likely to enforce any post-employment restrictive covenant. A lawyer should be able to advise an employee or the hiring firm of permissible conduct or conduct that would minimize the risk that a TRO would be entered against the employee and/or hiring firm.

**V: CONSULT AN ATTORNEY**

Various forms of non-competes are a fact of life in today's workplace, particularly in architectural and engineering firms, where customer relationships and intellectual property have substantial value. Regardless of which side of the issue you find yourself—as an employer seeking to protect client relationships and confidential information, an employee seeking new employment within the industry, or a hiring firm looking to hire from a competitor—you should retain legal counsel to advise you as to your rights, risks and practical conduct with regard to post-employment restrictive covenants.

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**VI: COPYRIGHT**

The third and final way architects and designers can legally protect their works is through copyright law. Historically, design professionals sought protection through common law copyright. However, perfecting common law copyrights was difficult at best, and the protections accorded common law copyrights were inadequate. In 1976, Congress abolished common law copyright and enacted the Copyright Act of 1976. Under the Act, copyright protection exists in original works of authorship fixed in any tangible medium of expression that can be perceived, reproduced or otherwise communicated, either directly or through the use of a machine.

The Act provides copyright protection for the following types of works:

- literary works
- musical works
- dramatic works
- pantomimes and choreographic works
- pictorial, graphic and sculptural works
- motion pictures and other audiovisual works
- sound recordings.

Copyright protection is not confined to only those categories above. Rather, those categories are illustrative of the types of authorship the Act protects. Examples of works that are excluded from copyright protections are:

- words and short phrases, such as names, titles and slogans; familiar symbols or designs; mere variations of typographic ornamentation, lettering or coloring; mere listings of ingredients or contents
- ideas, plans, methods, systems or devices, as distinguished from the particular manner in which they are expressed or described in a writing
- blank forms, such as time cards, graph paper, account books, report forms, order forms and the like, which are designed for recording information and which do not in themselves convey information
- works consisting entirely of information that is common property containing no original authorship, such as, for example, standard calendars, height and weight charts, tape measures and rulers, schedules of sporting events and lists or tables taken from public documents or other common sources
- typefaces.

Section 302 of the Act provides copyright protection for the life of the author plus fifty years thereafter. Copyright holders can obtain an injunction prohibiting infringement, actual damages and lost profits. Section 107 of the Act grants a limited exception to remedies afforded to copyrights. It permits reproduction of copyrighted material for purposes such as criticism, comment, news reporting, teaching, scholarship or research.

Design professionals may desire copyright protections for ideas, sketches, design drawings, as-built drawings, two-dimensional drawings, models, specifications, construction drawings in bid proposals and the finished project. Ideas themselves are not subject to copyright protection, but the shop drawings are.

Another federal statute that addresses copyright protection is the Architectural Works Copyright Act of 1990. This act provides copyright protection for habitable structures, such as houses, apartment complexes, office buildings, churches, etc. It does not provide protection for non-habitable structures, such as highways and bridges. Section 201 gives copyright protection to the author of the work. But if the work is for hire (as is ordinarily the case), then the employer or other person for whom the drawings were prepared is considered the author. Section 101 defines "work for hire" as prepared by an employee or a work specifically ordered or commissioned. The design professional who operates independently and is hired by the client to draft the designs is the owner of the contract. However, if the designer is not an independent contractor (e.g., an employee of an architectural firm), the owner of the copyright is the employer. This is usually set forth in the contract between the employee and employer.