

Drafting Restrictive Covenants

1. Noncompetition Agreements: Drafting and Enforcement

Noncompetition agreements are a type of restrictive covenant; restrictive covenants also include nonsolicitation agreements relating to customers, employees or vendors. Restrictive covenants are traditionally viewed as restraints on trade, and are therefore historically ‘disfavored in the law’ and are strictly construed against the party seeking to enforce them.¹ In practice, however, as of 2016, it appears that noncompetition agreements are less disfavored than they used to be. They are routinely enforced by the courts; in an age where businesses are based more on service and intellectual property than on manufacturing widgets, courts appear more disposed to protecting businesses from the employees that managed their client relationships and confidential information.

A. Basic Elements of a Noncompetition Agreement

Restrictive covenants must meet the basic elements of a contract: (1) both parties must manifest an intent to be bound by the terms of the agreement; (2) the terms must be sufficiently definite to be enforceable; and (3) the agreement must be supported by consideration.²

To be enforceable, in addition to the basic elements of a contract, a restrictive covenant must meet further requirements. The threshold issue in determining the validity of a noncompetition agreement is an initial analysis of whether it “reasonably relate[s] to the protection of a legitimate business interest” of the employer.³ Pennsylvania “law permits equitable enforcement of employee covenants not to compete only so far as

¹ Hess v. Gebhard & Co., 570 Pa. 148, 808 A.2d 912, 922 (Pa. 2002).

² Lombardo v. Gasparini Excavating Co., 385 Pa. 388, 123 A.2d 663, 666 (Pa. 1956); Stelmack v. Glen Alden Coal Co., 339 Pa. 410, 14 A.2d 127 (Pa. 1940); J.W.S. Delavau, Inc. v. Eastern America Transport & Warehousing, Inc., 2002 PA Super 336; 810 A.2d 672, 681 (Pa. Super. 2001).

³ Hess, 570 Pa. at 160, 808 A.2d at 918, 920.

reasonably necessary for the protection of the employer.”⁴ The Pennsylvania Supreme Court has held that legitimate business interests that can be protected through restrictive covenants include good will (client relationships), trade secrets and confidential information, unique or extraordinary skills and investment in an employee training program.⁵

Once a legitimate business interest is established, “[i]t is axiomatic in our law that in order for a covenant in restraint of trade to be enforceable the covenant must 1) relate to (be ancillary to) a contract for the sale of the good will of a business or to a contract of employment, 2) be supported by adequate consideration, and 3) be reasonably limited in both time and territory.”⁶

B. Ancillary to an employment contract or for sale of a business

The concepts of ‘ancillary to a contract of employment’ and ‘consideration’ are sometimes conflated by both attorneys and the courts. This is because frequently, the consideration for a noncompetition agreement is the provision of employment. However, simply because a restrictive covenant is ancillary to a contract of employment does not necessarily mean that it is supported by adequate consideration. ‘Ancillary’ and ‘consideration’ are two separate elements required for a restrictive covenant to be enforceable.⁷ It is true that when employment is consideration, the two elements are frequently contemporaneous; however, they are neither identical nor automatically linked.

A noncompetition agreement is ancillary to a contract of employment or for sale of a business when it fundamentally relates to the employment or sale contract. Since employees are less able to defend themselves against overreaching contracts, a “. . . covenant not to compete which is ancillary to a contract for the sale of a business is

⁴ Sidco Paper, 465 Pa. at 594, 351 A.2d at 254. (emphasis added).

⁵ Hess, 570 Pa. at 163, 808 A.2d at 920; Pennsylvania Funds Corp. v. Vogel, 399 Pa. 1, 7-8, 159 A.2d 472, 475-76 (Pa. 1960); Morgan’s Home Equip. Corp. v. Martucci, 390 Pa. 618, 136 A.2d 838, 846 (Pa. 1957).

⁶ George W. Kistler, Inc. v. O’Brien, 464 Pa. 475, 480 (Pa. 1975).

⁷ Kistler, 347 A.2d at 314.

subjected to a less rigorous reasonableness examination than those ancillary to an employment contract.”⁸ It is generally presumed that persons selling or buying a business interest are more sophisticated and less dependent on the employment of the business.

Pennsylvania courts have enforced restrictive covenants in the independent contractor setting, when they were ancillary to a prior employment agreement (i.e. related to employment) or related to a franchisor-franchisee agreement (i.e. related to the sale of a business).⁹ In *Quaker City*, the Superior Court held that a former employee who became an independent contractor was by analogy sufficiently related to “a contract for employment” to give the employer a legitimate business interest sufficient to enforce a noncompetition agreement. The *Quaker City* Court relied in part on the Restatement of Contracts, § 516, which referred to restraints against agents by principals.

C. Consideration

Consideration is a primary are of failure for noncompetition agreements; in Pennsylvania, if an agreement is signed by an already-employed employee, new consideration is required other than continued employment.¹⁰ This is true whether the employee is ‘at-will’ or bound by a contract for a term of employment. Where a legal employment contract exists, “...a cumulative promise to perform it, unless upon a new consideration is a nullity. Such a promise adds nothing to and takes nothing from the original obligation.”¹¹

Whether and how employment is consideration for a restrictive covenant is still developing in the law in Pennsylvania.¹² The primary question is when does the employee receive the ‘employment’ that is to function as consideration for the agreement;

⁸ *Scobell Inc. v. Schade*, 455 Pa.Super. 414 (1997).

⁹ See *Bryant Co. v. Sling Testing and Repair, Inc.*, 471 Pa. 1, 369 A.2d 1164 (Pa. 1977); *Piercing Pagoda, Inc. v. Hoffner*, 465 Pa. 500, 351 A.2d 207 (Pa. 1976); *Quaker City Engine Builders, Inc. v. Toscano*, 369 Pa. Super. 573 (Pa. Super 1987).

¹⁰ *Id.* at 316, *Gottus*, 314 A.2d at 281.

¹¹ *Markson Bros. v. Redick*, 66 A.2d 218, 221 (Pa. Super. 1949).

¹² See *Socko v. Mid-Atlantic Systems of CPA, Inc.*; 126 A.3d 1266 (Pa. 2015); holding that a restrictive covenant may be challenged for lack of consideration even though it was signed “intending to be legally bound” pursuant to the Uniform Written Obligations Act.

the Pennsylvania Supreme Court's decision in *Kistler* is instructive here. In *Kistler*, an employee and an employer came to an oral agreement as to the terms of employment two weeks prior to the start of employment.¹³ On the first day, employer *Kistler* gave employee *O'Brien* a noncompetition agreement, which *O'Brien* signed and later challenged in court. The Court held that the subsequent written agreement containing the restrictive covenant was unenforceable, as it provided no new consideration to *O'Brien*. The Court held that while employment can be adequate consideration for a restrictive covenant, employment had already been given as consideration to *O'Brien* in the prior oral contract, and that new consideration was therefore required. The *Kistler* Court held that “[u]nder the law of this Commonwealth it has been held that even where a later formal document is contemplated, parties may bind themselves contractually prior to the execution of the written document through mutual manifestations of assent,” and that as “all aspects of the employment relationship such as wages, duties and benefits . . .” were orally agreed upon, there was an oral agreement for employment based on the mutual assent of the parties. Continuing employment given in exchange for a promise not to compete is ‘past consideration’ and the covenant is therefore unenforceable for lack of consideration. A “new contract ‘. . .without change in . . .employment status’ [does] not qualify as ‘taking of employment.’”¹⁴ The imposition of “additional restrictions on an unsuspecting employee” would invalidate employment as consideration.¹⁵

If a covenant not to compete is executed at the inception of employment, the consideration supporting the covenant is the job itself.¹⁶ However, when an employee enters into a non-competition agreement subsequent to the commencement of employment, the restrictive covenant must be supported by new consideration in order to be enforceable.¹⁷ Such new consideration must be in the form of some corresponding

¹³ *Kistler*, 347 A.2d at 311.

¹⁴ *Jacobson & Company, Inc. v. International Environment Corporation*, 235 A.2d 612, 619 (Pa. 1967) (citing *Capital Bakers, Inc. v. Townsend*, 231 A.2d 292 (1967)).

¹⁵ *Beneficial Finance Co. of Lebanon v. Becker*, 222 A.2d 873,876 (Pa. 1966).

¹⁶ See e.g., *Barb-Lee Mobile Frame Company v. Hoot*, 416 Pa. 222, 225-26, 206 A.2d 59, 61 (Pa. 1965).

¹⁷ *Maintenance Specialties Inc. v. Gottus*, 455 Pa. 327, 330, 314 A.2d 279, 280 (Pa. 1974); *Davis & Warde Inc. v. Tripodi*, 420 Pa. Super. 450, 455, 616 A.2d 1384, 1387 (Pa. 1992).

benefit to the employee or favorable change in employment status.¹⁸ The mere continuation of employment is not sufficient consideration to support a covenant not to compete.¹⁹

D. Reasonably limited in temporal and geographic scope

Noncompetition agreements “. . . are reasonably limited if they are ‘within such territory and during such time as may be reasonably necessary for the protection of the employer * * * without imposing undue hardship on the employee * * *.’²⁰ This essentially leaves the determination of what is reasonably necessary to the Court. One to two years are nearly always found to be ‘reasonable’ time limitations. If an employer can prove truly significant harm and a unique or key role of the employee to be restrained, longer may be possible – and in the context of a sale of a business, much more likely.²¹

Geographic scope tends to be reasonable when it is limited to the territory in which the employee provides services; however, this restriction is growing more problematic to evaluate. When the law was developing, our economy was based more on agriculture and manufacturing than services and intellectual property. In the 21st century, employees are routinely based in one location and service or sell to clients all over the country, or the world. What a ‘reasonable’ geographic limitation for such employees would be, and whether the breadth of such a limitation poses an ‘undue hardship’ on an employee in attempting to earn a living, is still developing in the law. While courts have upheld nationwide restrictive covenants, the majority of those cases involve a situation where the employee actually provides service to a national territory.²²

¹⁸ Ruffing v. 84 Lumber Company, 410 Pa. Super. 459, 466, 600 A.2d 545, 548 (Pa. Super. 1991). New consideration can be a promotion, See Records Center Inc. v. Comprehensive Management, Inc., 363 Pa. Super. 79, 85, 525 A.2d 433, 435-36 (Pa. Super. 1987), or an increase in pay; See Zambelli Fireworks Mfg. Co. v. Wood, 2009 U.S. Dist. LEXIS 3974, *11 (W.D. Pa. 2009); Citadel Broad. Co. v. Gratz, 52 Pa. D. & C.4th 534, 546 (Pa. Ct. Com. Pl. 2001).

¹⁹ George W. Kistler Inc. v. O'Brien, 464 Pa. 475, 347 A.2d 311 (Pa. 1975).

²⁰ Jacobson & Co. v. Int'l Env't Corp., 427 Pa. 439, 452, 235 A.2d 612, 620 (1967) citing Restatement Contracts, s 516(f) (1932).

²¹ Insulation Corp. of America v. Brobston, 446 Pa. Super 520, 667 A.2d 729 (Pa. Super. 1995).

²² See Coventry First, LLC v. Ingrassia, 2005 U.S. Dist. LEXIS 13759 at * 27 (E.D. Pa. 2005).

If the covenant is overbroad, the court may blue pencil it to an appropriate size. “In Pennsylvania, an otherwise valid restrictive covenant which is geographically overbroad is ‘divisible and enforceable [once it has been limited by the court] to reasonable geographical limits.’”²³

E. Legitimate business interest of employer

Legitimate business interests that allow for the enforcement of a restrictive covenant are “. . . trade secrets or confidential information, unique or extraordinary skills, customer good will, and investments in an employee specialized training program.”²⁴

Trade secrets and customer good will are the most commonly used bases for allegations of a legitimate business interest. Goodwill is fairly easy to show – did the employee have relationships with customers and vendors that were important to the employer? The pitfall of using trade secrets is that they must be proven – an employer will have to ‘show their hand’ as it were with their otherwise secret information. Such a showing will also require significant evidence of the nature of the information and the extent to which the employer attempted to keep such information secret. Trade secrets must be the particular secrets of the complaining employer, not general secrets of the trade in which he is engaged.²⁵ Trade secret protection does not extend to an employee's general knowledge, experience, aptitude, skill, dexterity, manual and mental ability or other such subjective knowledge obtained in employment with the trade secret owner.²⁶

There has been little precedent on what constitutes “unique or extraordinary skills,” but they are considered to be those that are specifically conferred upon the employee by the employer through training or other investment, not those which the

²³ Quaker City Engine Rebuilders, Inc. v. Toscano, 369 Pa.Super. 573, 584-85, 535 A.2d 1083, 1089 (1987), citing Albee Homes, Inc. v. Caddie Homes, Inc., 417 Pa. 177, 186, 207 A.2d 768, 773 (1965); Barb-Lee Mobile Frame Co. v. Hoot, 416 Pa. 222, 206 A.2d 59 (1965); Robert Clifton Associates v. O'Connor, 338 Pa.Super. 246, 487 A.2d 947 (1985).

²⁴ WellSpan Health v. Bayliss, 2005 PA Super 76, ¶ 17, 869 A.2d 990, 996 (Pa. Super. Ct. 2005).

²⁵ Bettinger v. Carl Berke Assoc., 455 Pa. 100, 314 A.2d 296, 299 (Pa. 1974).

²⁶ Van Products Co. v. General Welding & Fabricating Co., 419 Pa. 248, 213 A.2d 769, 776-77 (Pa. 1965); Christopher M's Hand Poured Fudge, 699 A.2d at 1275.

employee develops as a result of experience in the job.²⁷ It is rare that this can be shown – but in cases where the employer introduces the employee to an industry and provides access to a formal training program, it may suffice.

A legitimate business interest can disappear if the employee is terminated without cause, even due to their poor performance. In such cases, the Court may determine that the employer has found that the employee is worthless to its legitimate business interests and it is ‘unreasonable’ to allow the restrictive covenant to be enforced.²⁸ An employee who engages in bad behavior, however, will not be freed of their obligations.

2. Drafting tips

Taking the above law into consideration, the drafter of a noncompetition or nonsolicitation agreement should keep the following issues in mind:

i. Consideration - when is the contract presented to the employee? The employee should know that a restrictive covenant will be part of their agreement with the employer before the employment begins. Signing can occur afterwards (within a reasonable time), but the employee should know up front. This is both good business and best legal practice. If the contract is presented after employment begins, without notice, real and substantial consideration should be given – a raise, promotion or tangible perks. Cliff-vesting equity or deferred compensation that is forfeit upon termination with cause or quit will be sufficient, and will provide the employee with motivation to stay with the employer.

ii. What is the geographic area in which the employee will provide services? The agreement should be flexible, as employees are more mobile today than ever before. The agreement should also address clients as a ‘geographic area’ if the employee is client-facing – this is essentially a nonsolicitation addition to the noncompetition

²⁷ Spring Steels, Inc. v. Molloy, 400 Pa. 354, 162 A.2d 370, 360-361 (Pa. 1960); Morgan's Home Equipment Corp. v. Martucci, 136 A.2d 838, 846 (Pa. 1957); Victaulic Co. v. Tieman, 499 F.3d 227, 235 (3rd Cir. 2007).

²⁸ Insulation Corp. of America v. Brobston, 446 Pa. Super 520, 667 A.2d 729 (Pa. Super. 1995).

agreement. By limiting the employee in both a physical geography, and in not dealing with any clients with whom he had contact on behalf of the employer, an overlapping protective structure is created for the employer.

iii. What is the time limit for restriction? Ensure that it relates to the business needs of the employer, and you have facts to show how the time period is related – i.e. how long will it take a replacement employee to develop the same customer relationships as the departing employee? Some employers will want to ‘get greedy’ and push for more than 1 or 2 years of a restriction; there is rarely a business need for such length, and the business attorney should prod the client to explain that need – it will help with the drafting of the agreement, and with managing the client’s expectations.

iv. What are the nature of the services provided? Do not limit the employee to their then-current services, but to any services which they provide the employer is the last few years before termination. This ensures maximum coverage for the ‘subject matter’ of the restriction.

v. What are the legitimate business interests of the employer? Ensure that they are set forth in the agreement, and specifically relate to the employee. Reference training, trade secrets, client relationships or confidential information to which the employee will have access. The employee should acknowledge and agree that the restriction is necessary and reasonable for the protection of the employer’s legitimate business interest.

vi. Acknowledgement of no hardship – the employee should acknowledge that the restriction will not pose an undue hardship, and that s/he can earn a living while abiding by the restriction.

vii. What are the penalties for breach? The employee should be required to repay any damages caused, and to be subject to a temporary and permanent injunction that lasts the length of the covenant. Further, the injunction should run an extra day for each day the employee violated the covenant, in order to provide the employer the

protection for which it bargained. The employer should also require waiver of the statutory requirement of a bond in obtaining injunctive relief. Finally, the employer should be able to obtain its' costs of enforcement, including attorneys' fees.

viii. Ensure that the contract is assignable! Without specific language making the noncompete assignable, it will not travel with sold assets, and reduce the value of an asset purchase deal that includes employee contracts.²⁹

3. Confidential Information

Trade secrets and confidential information are separate, but related concepts. A trade secret is commercial information with (a) independent economic value due to its secrecy, and (b) for which efforts are made to keep it secret. Trade secrets are protected by common law, or as is the case in Pennsylvania, by statute the Uniform Trade Secrets Act ("UTSA").³⁰ Trade secrets under the UTSA are not created by contract, but are defined by the UTSA itself.

Confidential information has no independent legal protection outside of confidentiality agreements, which may be evidence of the confidential nature of the data involved.³¹ Confidential information is that information a business does not want to publicize, but which it cannot protect as a trade secret or intellectual property. Therefore, if a business wants to protect its non-trade secret information, its only avenue is a confidentiality or nondisclosure agreement ("NDA").

A. Trade Secrets and Intellectual Property

Pennsylvania has adopted the following definition of a trade secret:

A trade secret may consist of any formula, pattern, device or compilation of information which is used in one's business, and gives him an opportunity to obtain an

²⁹ Hess v. Gebhard & Co., 570 Pa. 148, 808 A.2d 912, 922 (Pa. 2002).

³⁰ Uniform Trade Secrets Act, 12 Pa.C.S. § 5301, et seq.

³¹ Morgan's Home Equip. Corp. v. Martucci, 136 A.2d at 843 n. 5; see also Christopher M's Hand Poured Fudge, Inc. v. Hennon, 699 A.2d 1272, 1275 (1997) (stating that one factor relevant to trade secret determination is the extent of employer's measures to guard the secrecy of the information).

advantage over competitors who do not know or use it. It may be a formula for a chemical compound, a process of manufacturing, treating or preserving materials, a pattern for a machine or other device, or a list of customers.³²

Trade secret status is an issue of fact – i.e. does the alleged trade secret meet the statutory definition – and not created by contract.³³ Several factors must be considered in determining whether or not a protectable trade secret exists: (1) the extent to which the information is known outside the owner's business; (2) the extent to which it is known by employees and others involved in the owner's business; (3) the extent of measures taken by the owner to guard the secrecy of the information; (4) the value of the information to the owner and to his competitors; (5) the amount of money expended by the owner in developing the information; and (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.³⁴

The Courts have cautioned that the idea of a trade secret is “nebulous” and that it is well settled that to be defined as a trade secret, the information needs to be “an employer’s actual secret and not compromise mere ‘general practices’.”³⁵ Trade secrets do not exist where the information can be obtained through legitimate means by a competitor.³⁶

Where a process is readily available to the public by calling up the manufacturer, it is essentially in public view and is not a trade secret.³⁷ For instance, the design of machine for manufacture of paper clips was not a trade secret where machine had been in

³² Tyson Metal Prods., Inc. v. McCann, 376 Pa. Super. 461, 546 A.2d 119, 121 (Pa. 1988) (quoting RESTATEMENT (FIRST) OF TORTS § 757, cmt. b (1939)); see also Felmlee v. Lockett, 466 Pa. 1, 351 A.2d 273, 277 (Pa. 1976).

³³ Christopher M's Hand Poured Fudge, 699 A.2d at 1275; West Mountain Poultry Co. v. Gress, 309 Pa. Super. 361, 455 A.2d 651, 652 (Pa. Super. 1983).

³⁴ Christopher M's Hand Poured Fudge, 699 A.2d at 1275.

³⁵ Iron Age Corp. v. Dvorak, 2005 PA Super. 270, 880 A.2d 657, 664 (Pa. Super. 2005) (citing Felmlee v. Lockett, 466 Pa. 1, 351 A.2d 273, 277 (Pa. 1976)).

³⁶ Iron Age, 351 A.2d at 665.

³⁷ See S.I. Handling Systems v. Heisley, 753 F.2d 1244, 1262 (3d Cir. 1985) (citing Van Products Co., 213 A.2d at 779-80); Henry Hope X-Ray Products v. Marron Carroll, Inc., 674 F.2d 1336, 1341 (9th Cir. 1982) (same).

use throughout industry for 50 years and there was nothing unusual about mechanical parts of machine.³⁸

Though confidential customer data is sometimes entitled to protection as a trade secret, “customer lists [are] at the very periphery” of trade secret law.³⁹ Customer lists are not entitled to trade secret protection if the customer identities “would be generally known to all firms in the same business as” the employer.⁴⁰ Businesses are as interested in protecting their vendors and suppliers as they are their customers; these lists are also on the periphery of trade secrets.⁴¹ Similarly, knowledge of the need, use and demand for a product, and knowledge of the needs of a particular customer are not trade secrets.⁴²

Keeping the above law in mind, employers and businesses must be careful when revealing trade secrets to their employees, customers and vendors. The trade secret owner must make measurable attempts to maintain the secrecy of its trade secrets, as required by statute; therefore confidentiality agreements are required when the information is revealed to employees or third parties. Circumstances in which these agreements should be used are:

i. Employment agreements – ensuring prophylactically that all trade secrets revealed during employment are maintained;

³⁸ See Pittsburgh Cut Wire Co. v. Sufrin, 350 Pa. 31, 38 A.2d 33, 34 (Pa. 1944); Spring Steels, Inc. v. Molloy, 400 Pa. 354, 162 A.2d 370, 372 (Pa. 1960) (finding that steel manufacturing process was not a trade secret process where other firms besides plaintiff used the process).

³⁹ Renee Beauty Salons v. Blose-Venable, 438 Pa.Super. 601, 652 A.2d 1345, 1347 (Pa. Super. 1995) (affirming order denying protection of employer's customer lists); see also Carl A. Colteryahn Dairy v. Schneider Dairy, 415 Pa. 276, 203 A.2d 469, 473 (1964) (“[customer] lists are generally not the type of secrets which require equitable preservation.”); Fidelity Fund, Inc. v. DiSanto, 347 Pa.Super. 112, 500 A.2d 431, 436 (Pa. Super. 1985).

⁴⁰ Harsco Corp. v. Klein, 395 Pa.Super. 212, 576 A.2d 1118, 1121 (Pa. Super. 1990).

⁴¹ See Den-Tal-Ez, Inc. v. Siemens Capital Corp., 389 Pa.Super. 219, 566 A.2d 1214, 1229 (Pa. Super. 1989) (holding that “information like the identity of [plaintiff's] material suppliers is not considered a secret since it can readily be learned in any productive industry.”); Carl A. Colteryahn Dairy, 203 A.2d at 473 (holding that “[e]quity will not protect mere names and addresses easily ascertainable by observation or reference to directories.”).

⁴² Van Products Co., 213 A.2d at 776 (holding that the knowledge of the need, use and demand for a product is not a trade secret); S.I. Handling Systems, 753 F.2d at 1259 (holding that customer information about the needs of a single prominent buyer is not a trade secret).

ii. Computer system access clickwraps – each time an employee logs on to an employer’s computer systems, they must ‘agree’ to maintain the secrecy of the information it contains;

iii. Vendor agreements – ensuring that vendors have the information necessary to service the owner, but must maintain its secrecy;

iv. Business negotiations – letters of intent, memoranda of understanding, term sheets, etc., should all contain confidentiality agreements to the extent trade secrets may be revealed as part of any related discussions;

v. Customer agreements – customers will frequently have access to trade secrets of the business serving them; the business should ensure that this information is only used for the services provided, and secrecy is maintained; and

vi. Termination agreements – even if the terminated employee has a confidentiality agreement, restating the obligation in a termination agreement (especially if consideration, such as severance, is provided) is useful to clean up any holes in the confidentiality obligations of the employee.

B. Elements of a Confidentiality Agreement

A number of clauses should be included in a confidentiality agreement, as follows:

i. Need for the confidentiality of information – this should describe why the information disclosed must be maintained as confidential.

ii. Scope of information that will be confidential – the agreement should review the scope of what trade secret or confidential information might be provided, being as broad as possible while still relating to the information the business may have;

iii. Exclusions from confidentiality – receiving parties will want to have exclusions from the scope of confidentiality. Generally this includes information

that the receiving party obtains legally, information in the public domain through no bad act of any party; information already known to the receiving party or otherwise independently developed.

iv. Obligations of confidentiality – the disclosing party will want written assurances that the receiving party will treat the information as confidential, and to give it the same protection as if it were confidential or trade secret information belonging to the receiving party. In certain circumstances, the actual protections required to be provided should be set forth – but this is an unusual step, and should be undertaken when it objectively necessary.

v. Return of information – the agreement should require that, at the end of the relationship, all confidential and trade secret information be returned to the business. This obligation should be specifically required to occur without demand by the information’s owner, and automatically triggered on termination of the agreement or the related business relationship.

vi. No copies – the agreement should require that no copies of any digital information be retained once it is returned;

vii. Limits on disclosure – the agreement should limit disclosure of the information only to the extent necessary for the business purposes of the relationship. If the person or entity who receives the information may need to disclose it to their employees or agents to fulfill their obligations to the disclosing party, then the agreement should require that such employees or agents sign an acknowledgement of the confidentiality of the information. This acknowledgement should be an attachment to the agreement, so that there is no question as to what must be signed.

viii. Allowable disclosures – other than for business purposes as set forth above, the only allowable disclosure should be as required by law – i.e. legal process.

ix. No transfer of intellectual property rights – the disclosing party will want to ensure that the disclosure cannot arguably have been made as a transfer of the related intellectual property rights. This should be set forth explicitly in the agreement.

x. Notice – the receiving party should be required to provide notice to the disclosing party of any breach of the confidentiality of the information, including potential breaches such as subpoenas or lost information.

xi. Remedies – this is where the receiving party will insist on a limitation of liability, and the disclosing party will insist on injunctive relief and costs of enforcement.